

Úrad pre reguláciu sieťových odvetví

Regulatory office for network industries

ANNUAL REPORT VÝROČNÁ SPRÁVA 2012

RONI

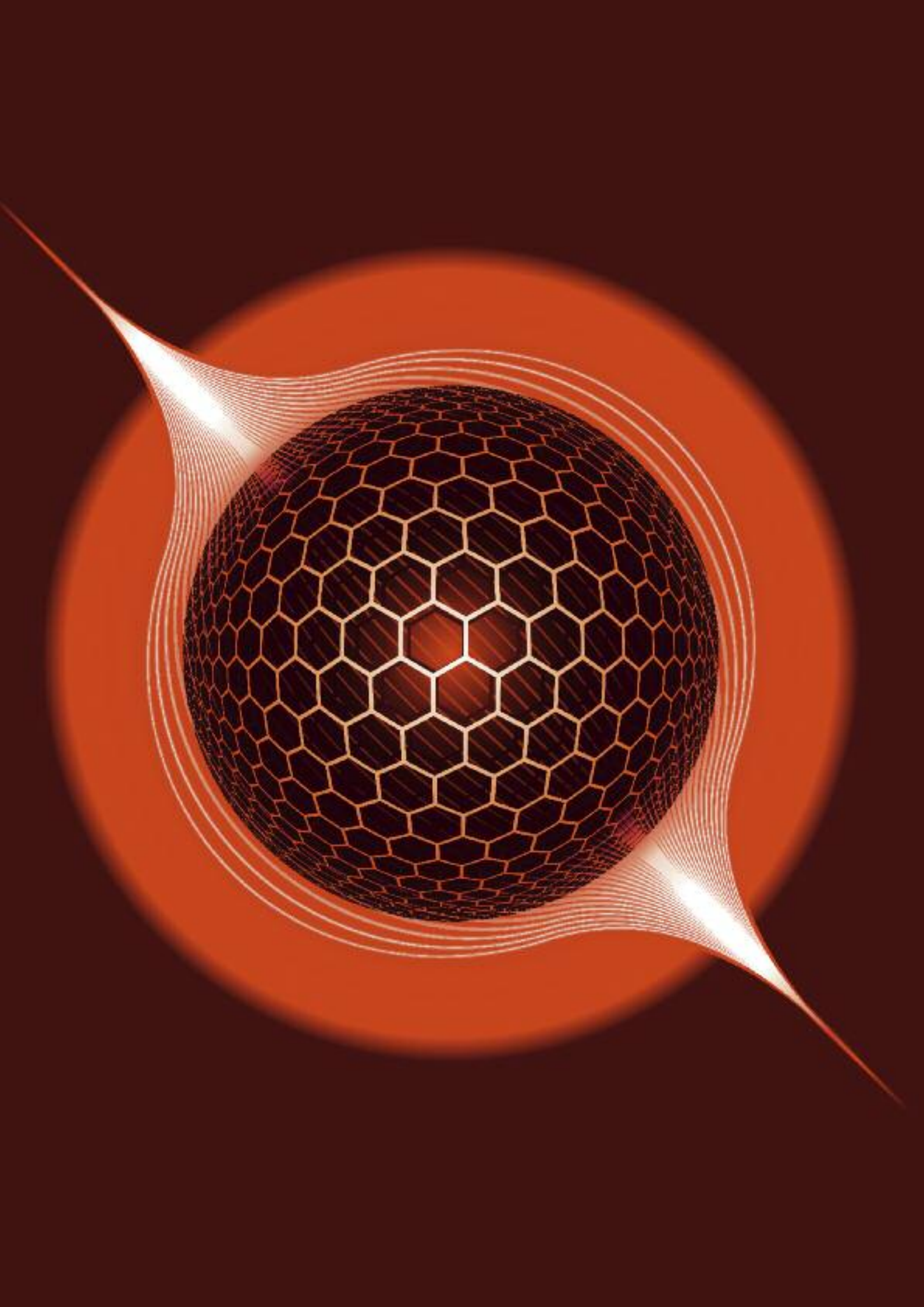


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Foreword



The year 2012 brought new incentives having impact on the activities of the Regulatory Office for Network Industries. The Government of the Slovak Republic carefully transposed the regulations of the so-called „EU Third Energy Package" into the Slovak legislation. New acts governing the field of regulation in network industries including the energy sector were adopted, thus significantly strengthening the independence of the Regulatory Office for Network Industries by granting new powers. As a result, mainly in the second half of the year the Office was given an opportunity to implement its plans and intentions aiming to overcome historical impacts of the undue privatisation of major regulated companies in the energy sector on all players in the markets with electricity and natural gas.

Through its regulatory policy the Office translated its objectives, priorities, scope and methods into price control performed by means of enforceable regulations aimed at cutting down the costs in the entire energy chain. Such regulations are drafted and scheduled to flexibly respond to the situation in the markets with electricity and natural gas that is essential in the network industries that have purely monopoly status. They are focused on the reduction of grid charges by eliminating grid losses, optimising the prices of energy produced from renewable energy sources and exploring new capacity reserves in the transmission and distribution systems.

The year 2012 may be characterised as the period of positive changes in the gas industry. In this regard the Office did not remain half-way automatically approving costs for gas purchase in international markets but it managed to take advantage of the contract between Slovenský plynárenský priemysel, a.s. (Slovak Gas Industry) and the Russian company Gazprom export in order to stabilise gas prices for Slovak consumers.

Last year the Slovak liberalised markets with electricity and natural gas underwent a sort of „maturity test". The Office regulated only household energy supplies. However, it turned out that desires concerning market regulation of energy supplies to other consumer groups had diverged from reality. This was perceived primarily by the so-called small businesses whose electricity supply was exempt from regulation already in 2012. Even though there was no objective reason to increase prices, almost all consumers came to precious consensus in this matter. The prices were increased despite the fact that during the time when supply had been regulated small suppliers had all eligible costs and adequate profit covered in a full extent. As a result of deregulation, prices did not become lower, but on the contrary, the prices and costs of consumers became higher, which meant higher prices for customers of small businesses.

The participants of the electricity and gas markets from the category of small businesses experienced the fact that „the invisible hand of the market" is still unable to provide for the equal conditions for all market participants and for many of them that are unable to make qualified decisions and know the market, it did not bring fair but almost „demolition" prices. On the basis of practical knowledge therefore the Office took decision to come back to regulation of electricity and gas supplies for small companies starting from 2013, although it was apparent that such action would not be enthusiastically accepted by orthodox believers in the free market.

Heat producers were also unprepared for the free market in the form of price deregulation. It is an irony that heat producers imposed enormous pressure on ceasing regulation of supply of natural gas for the purpose of house-

hold heat production. Unfortunately, they failed. It turned out that they either showed no concern or were unable to negotiate better conditions for gas supplies what negatively affected the heat consumers by pointlessly higher costs.

Final electricity prices significantly affect the support of renewable energy prices, too. This is a very hot issue of price control because the Office does not bear responsibility for the fuel mix, whose interpretation in favour of „green energy" is easily abused in a populistic manner. The institutions that had the fuel mix in their agenda did not pay due attention to this area of energy industry which caused the uncontrollably higher use of renewable energy, mainly photovoltaics. Applications submitted to the Office asking for legislative amendment that would enable to interfere into feed-in tariffs of electricity generated from renewable energy sources gained no support. Despite such unfavourable situation the Office continued to make efforts to make the costs for support of rene wable energy more realistic and it basically remained the only barrier to the threatening growth of final electricity prices and guarantee of reasonable proportion of renewable energy in total production and consumption of energy carriers in Slovakia.

The situation changed since the adoption of new Act on Regulation in Network Industries and the Act on the Energy Industry in September 2012. Since then the Office has applied new more stringent powers and will further continue to set the reasonable limits regarding renewable energy sources that will allow Slovakia to comply with the commitment to achieve 14 % in total electricity consumption from such sources until the year 2020 without any deterioration of the social situation of inhabitants due to electricity prices.

This task was also the reason of making the inspection of all renewable energy – based generation plants that were performed by the Office in 2012. During this inspection the Office physically checked 1,217 photovoltaic power plants and identified more than 200 infringements of the law.

Operators and suppliers in the electricity industry and the gas industry submit the Office the outputs from unbundled accounts, including costs, revenues, assets, liabilities and depreciation. From the data submitted by regulated companies the Office develops economic models in order to check the effectiveness of the performance of regulated companies. In this regard I need to claim with certain satisfaction that the economic outputs confirm the proper way of establishing the regulatory framework and the regulatory environment in the given period, thus creating the conditions for a transparent and non-discriminatory market environment where regulated companies had sufficient space to cover their costs and generate an adequate profit.

The Office also took an important action with regard to the consumer protection. Besides permanent contact with the public, providing advice, information and assistance within its competences it introduced the automatic compensation payments for the violation of quality standards. However, it is a pity that such tool imposing pressure on its energy suppliers and services are used only ocassionally by consumers.

An important milestone in the field of international activities performed by the Office was the year 2012 from the point of view of the EU project called TWINNING. Starting from July 2012 the Office employees began to provide assistance to their fellow colleagues in Serbian Beograd by providing them with theoretical knowledge and practical experience in building their regulatory office and drafting regulatory legislation. This also gives the evidence that the Office acquired a new quality that will be further improved in the upcoming period.



Ing. Jozef Holjenčík, PhD.
Chairman of the Regulatory Office for Network Industries



Regulatory board (upper row from the left): Ing. **Milan Krajčovič** (member), Ing. **Vladimír Čepko** (member), JUDr. Ing. **Ján Hijj**, PhD. (member), Ing. **Viliam Mikuláš** (member),
(bottom row from the left): Ing. **Jozef Holjenčík**, PhD. (chairman), Ing. **Radoslav Naništa** (vice-chairman)

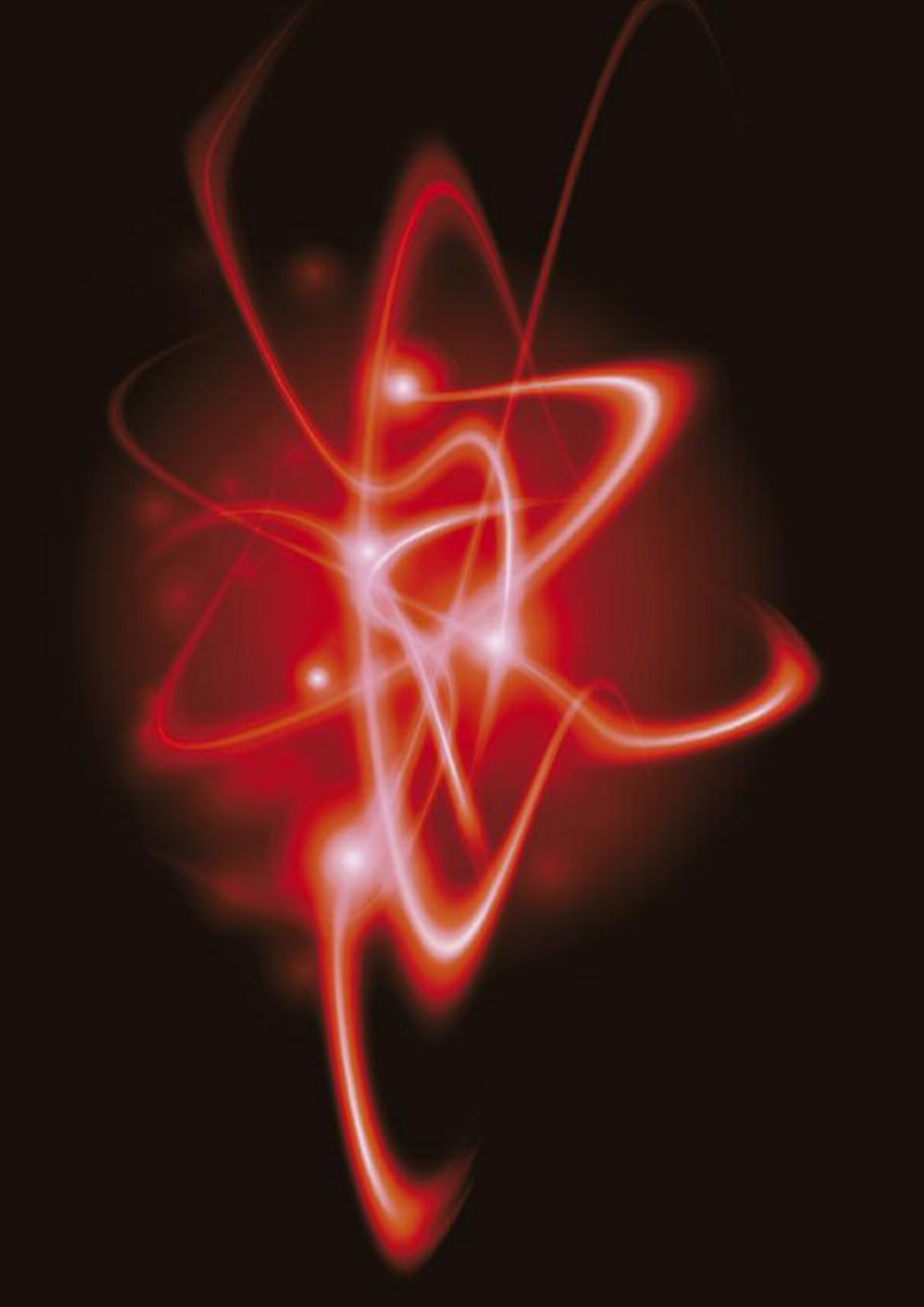
ÚRSO



Management staff of the Regulatory Office for Network Industries

Negotiation of the Regulatory Board





I. The Electricity Market

The electricity market in the conditions of the Slovak Republic is as a matter of fact liberalised by law and has been opened since 2007. In 2012 the electricity market in the Slovak Republic continued to grow in terms of electricity supplies. More than 57,000 households took the opportunity to switch their electricity supplier. Along with traditional electricity suppliers including ZSE Energia, a.s. (Western Slovak Power Utility), Stredoslovenská energetika, a.s. (Central Slovak Power Utility) and Východoslovenská energetika a.s. (Eastern Slovak Power Utility) there were other 152 electricity suppliers in the market.

Even though electricity consumption decreased annually by 0.26% to the value of 28,786 GWh and electricity production increased by 0.92 % to the value of 28,393 GWh, such values of electricity consumption and production did not achieve the level four years before.

I.1. Network Regulation

Unbundling

There is only one single transmission system operator (hereinafter referred only as „TSO") in the Slovak electricity market which is SEPS, a.s. company (hereinafter only „SEPS"). The TSO ownership unbundling was already accomplished in 2001. As a result of unbundling three vertically integrated companies were formed with the function to provide electricity distribution, electricity supply and services related to such activities. The companies are Západoslovenská energetika, a.s. (Western Slovak Power Utility), Stredoslovenská energetika, a.s. (Central Slovak Power Utility) and Východoslovenská energetika, a.s. (Eastern Slovak Power Utility). The range of their activities corresponds to the historical regional structure of the country. Being self-critical it may be noted that their establishment is associated with political and untransparent practices, the consequences of which have had to be mended up to the present moment and only by making enormous efforts it was made possible in the past years to ensure the compliance with EU directives in a full extent. In 2012 the Directive 72/2009/EC was successfully transposed into the Slovak legislative system by adopting the Act No. 250/2012 Coll. on Regulation of Network Industries and the Act No. 251/2012 Coll. on the Energy Industry. With full respect and responsibility it may be stated that in the conditions of the Slovak Republic TSO´s unbundling has been accomplished and it is functionally efficient, as prescribed by the above stated provision. At the same time TSO´s certification is underway at the moment.

Technical functionality of the network

In 2012 the activities of the Office in this area were aimed predominantly to approve operational orders of the system, to approve and monitor the ways and volumes of ancillary services provided, including maximum price setting and monitoring the compliance with quality standards in order to ensure in a full extent reliability and security of the system and the development of the single electricity market.

Ancillary services and balancing services

The base load is provided between the producer and the consumer either directly or by means of electricity traders. TSO is responsible for providing regulatory power. The company, based on the respective contract, purchases all ancillary services from certified service providers in the free market. The free competition principle based on the economically effective principle is thoroughly applied. System dispatch is performed by means of control systems operated by the Slovak Energy Dispatch Centre. The price for regulatory power is paid if ancillary service is activated. Bearing in mind the fact that the electricity industry in Slovakia is characterised by full unbundling of production, transmission and distribution of electricity, competition in the market with ancillary services being adequate, which led to the higher number of certified providers of ancillary services in the year 2012 having the effect of a lower tariff for providing such services. Ancillary services were provided with a larger focus given on services with a shorter time of activation.

Ancillary services have been lately provided by smaller heat producers, belonging to the category of public heat and power combustion plants, or captive power plants which improved the availability of generation plants providing ancillary services in the course of years of 2008 to 2012 (compared to the previous balance).

The number of providers of individual types of ancillary services is growing on an annual basis. New entrants in the market with such services guaranteed the ongoing activities in this segment of the market. Through the enforcement of valid legislation governing the operation of the system the Office managed to cut down the total cost in this field, which contributed to the reduction of total costs for electricity consumers.

The table below presents the development of ancillary services provided in a period from 2010 to 2012:

The development of ancillary services provided in a period from 2010 to 2012

Indicator/Year	2010	2011	2012
Number of ancillary service providers	23	25	26
Number of bids by ancillary service providers	113*	3 408	2 791
Number of signed contracts on provision of ancillary services	28	82	33

* compared to 2011 and 2012, in 2010 there was a different method used for evaluating offers in the bidding process

In 2012 a new provider of ancillary services emerged in the market. In 2012 regulation of the system was extended with ancillary service of TRV10MIN+ a TRV10MIN- type (tertiary power control), decrease in demand and increase in demand. In 2012 emergency supply from neighbouring power system operators was required to satisfy the needs of the power system.

The comparison of supplies of regulatory power in 2011 and 2012 (MWh):

The comparison of supplies of regulatory power in 2011 and 2012 (MWh)

Type of regulatory electricity/year	2011	2012	Change 2012/2011 (%)
Primary power control +	10 034	7 822	-22,05
Primary power control -	10 210	7 815	-23,46
Secondary power control +	171 484	204 594	19,31
Secondary power control -	258 662	229 813	-11,15
Tertiary power control 3 min. +	3 991	6 633	66,20
Tertiary power control 3 min. -	4 454	2 802	-37,09
Tertiary power control 10 min. +	-	2 712	-
Tertiary power control 10 min. -	-	145	-
Tertiary power control 30 min. +	23 529	16 372	-30,42
Tertiary power control 30 min. -	33 065	14 355	-56,59
Decrease in demand	-	2 286	-
Increase in demand	-	31	-
Import of emergency electricity supply	0	800	-
Non-guaranteed regulatory electricity +	0	0	-
Non-guaranteed regulatory electricity -	0	100	-
Positive regulatory electricity	209 038	241 219	15,39
Negative regulatory electricity	306 391	255 061	-16,75

Source: SEPS

System reliability as defined by quality standards

Making a comparison of the performance of regulated companies with regard to the quality of goods and services delivered, and its publishing represent an effective regulatory tool for stimulating effectiveness of regulated companies.

Restoration of electricity distribution to final electricity consumers following the breakdown in the transmission/ /distribution system

The outputs achieved in 2012

System operator	Voltage level	No. of events	Compliance with time limits	Non-compliance with time limit
SEPS	VVN	2	2	0
ZSE-D	VN	2 497 706	2 495 569	2 137
	NN	229 134	228 600	534
SSE-D	VN	967 692	961 497	6 195
	NN	206 123	205 751	372
VSD	VN	1 424 810	1 419 755	5 055
	NN	142 405	142 122	283

Transmission/distribution of electricity provided on the date set by the agreement or within 5 working days since

the signing of the agreement on connection to the system or on the date under the signed agreement on combined electricity supply in 2012.

Transmission/distribution of electricity supply in 2012

System operator	No. of events	Compliance with date	Non-compliance with date
SEPS	0	0	0
ZSE-D	17 887	17 859	28
SSE-D	7 123	7 123	0
VSD	6 508	6 437	71

Electricity industry	Electricity transmission	Electricity distribution	Electricity supply
No. of delivered evaluations	1	94	121
No. of recorded events	3	8 707 545	117 796
No. of recorded events with violated quality standard	0	330 463	7 041
Share of events with violated quality standard to recorded events	0 %	3,80 %	5,98 %

System tariffs for connection and access

Regarding price regulation in the electricity industry the regulatory tools used by the Office for the purpose of implementation of the regulatory policy are generally binding legal provisions, issued based on the authorisation provisions of the Act No. 276/2001 Coll. on Regulation of Network Industries.

The year 2012 was the first year of a 5-year regulatory period in the electricity industry starting to apply the price cap method. The positive results from the previous regulatory period proved the price cap method to remain the dominant method also in the regulatory period of 2012–2016. Such incentivisation method of price regulation allows the system operators to retain the achieved higher profit provided that they behave effectively and are able to optimise their costs.

The price of electricity for final consumers is generally made up of the price for regulated and non-regulated components. Regulated components include the activities that are associated with transportation of electricity from the producer via the system leading to the final consumer (i.e. transmission and distribution) and the activities aimed at maintaining the stability of the power system (transmission and distribution services, balancing services and services for system operation including the contributions to support the electricity generation from renewable energy sources, highly efficient CHP and domestic coal) and the price for services provided by the deviation settler and for household electricity consumers it is also the price of electricity supply that is based on the electricity price in the free market (according to the EEX exchange).

A tool implementing price regulation in the electricity industry in 2012 was the Decree of the Office No. 225/2011 Coll. enforcing price regulation in the electricity industry as amended by later regulations. Apart from clear and transparent rules and patterns determined on the principle of the settlement of all eligible as well as adequate costs for performance of the activities in the network i.e. regulated activities ensuring the adequate profit comparable with other EU member states, the Decree has also introduced the following changes:

- The range of 8 rates for electricity supply and 8 rates for access to the electricity distribution system and electricity distribution for household electricity consumers and the range of maximum 11 rates for users of the distribution system with the exception of household electricity consumers,
- The highest rate of an adequate profit earned from household electricity supply,
- A more detailed specification concerning the negotiations on reserve capacity,
- Unless the regulated company has the price approved for the year „t" as of January 1 the price approved for year t-1 is applied until the date of delivery of price decision for the year „t",
- A more detailed specification of the categories of technologies and prices of electricity produced from renewable energy sources and combined heat and power production,
- The procedure for determination of prices for organisation of the short-term day ahead electricity market,

- A more detailed specification of a share of revenues earned from charges for capacity reservation and total revenues for access to the distribution system and electricity distribution apart from revenues from electricity distribution losses up to the maximum level of 0.65,
- A more detailed specification on the method of calculation, procedure and conditions for application of the tariff for system operation, legislation included Acts No. 142/2010 Coll. and 558/2010 Coll. defining several new concepts, important for the development of the electricity market, especially in the area of short-term day ahead electricity market

Regarding price regulation of the activities concerned in 2012 the Office issued the following:

- 133 price decisions for access to the transmission system and electricity transmission, for access to the distribution system and electricity distribution, connection to the system, household electricity supply and supply by the last resort electricity supplier,
- 14 price decisions on setting a charge for the electricity producer using CHP-based technologies,
- 1,176 price decisions for setting the additional charge for producers of electricity from renewable energy sources.

The Office publishes the approved or regulated prices on its official website.

In 2012 a tariff for electricity transmission increased annually by 40.31 %, a tariff for reserve capacity increased annually by 32.57 % due to the intention to make the value of the property of the transmission system operator more realistic based on the market principle, a tariff for balancing services decreased from 8.95 €/MWh down to the level of 7.33 €/MWh, which represents a decrease by 18.10 %, a tariff for transmission losses increased by 35.25 % due to the decline in the volume of electricity transmission, mainly due to loop electricity flows from neighbouring transmission systems.

Compared to 2011, a tariff for system operation in 2012 increased by 0.85 €/MWh to the value of 15.70 €/MWh, which makes an increase by 5.72 % because of a more intensive support given to electricity generated from renewable energy sources and in highly efficient combined heat and power production, support of production of electricity from domestic coal (in accordace with the Directive 72/2009/EC) and given to the fact that a tariff for operation also included the costs for short-term day ahead market organiser who makes a significant contribution to the liberalisation of the market in the restricted territory.

Cross-border issues

In 2012 the Office co-operated in the cross-border matters with regulatory authorities and the Agency for Co-operation of Energy Regulators (hereinafter only "ACER") under the provision of the Ordinance No. 2009/EC/714 in the region of Central and Eastern Europe (hereinafter „CEE region"). This region operates the Common Auction Office of Transmission System Operators of the CEE region with the headquarters in Freising that ensures a joint co-ordination of congestion management in the CEE region based on the non-discriminatory market mechanisms by means of explicit auctions for annual, monthly and daily capacities. The Slovak Transmission System Operator – SEPS, a.s company is governed by the Electricity Market Rules and the Operational Order of the Transmission System approved by the Office when applying the procedures of the allocation of cross-border capacities and congestion management on cross-border profiles. The capacity on cross-border interconnections of the transmission system of the Slovak Republic in 2012 sufficiently guaranteed the stability and safety of the system not only in the Slovak Republic, but also in the EU conditions.

Since 2009 daily cross-border capacity on the cross-border profile between Slovakia and the Czech Republic has been allocated by means of the implicit auction as a result of the coupling of spot markets in the Slovak Republic and the Czech Republic. Moreover, since 2011 there has been an intraday capacity allocation functioning on this profile, which is free of charge, provided the given requirements related to cross-border transmission were accepted, applying the „first comes first served" principle.

The significant event of the year 2012 resulting from the interconnection of short-term day ahead markets with electricity in the CEE region was the launching of the coupling project (hereinafter only „coupling") of the day ahead markets with electricity in the Czech Republic, Slovakia

and Hungary that happened on September 11, 2012. As part of the project there are the systems in use already developed for the EU Target Model of Electricity Markets (hereinafter only „the Target Model").

It may be pointed out that Slovakia is actively involved in the process of establishing a single trading zone in the CEE region and thus enforcing the model of general mutual benefit for all members of this region.

The target model of the interregional plan and the capacity allocation calculation method defined in the framework guidelines on the capacity allocation and congestion management in ACER claims that it is necessary to apply the method of available transmission capacity or the method based on physical flows. At present the countries in the CEE region use the method of available transmission capacity whereas the method based on physical flows is recommended arising out of the above mentioned regulations concerning the calculation of short-term capacities for highly interconnected and mutually dependant networks. The earnings received from charges for congestion management for SEPS company accounted for 32, 421 604.03 EUR in 2012. That year the Office was monitoring the way of spending the earnings under Article 16 (6) of the Regulation No. 2009/EC/714 stating that all earnings of the national TSO resulting from the allocation of interconnectors were used to guarantee the actual availability of allocated capacity and maintenance or increase in capacities of interconnectors through investments to the systems.

Since the date of effect of new national legislation in the Slovak Republic including respective transposed provisions of the 3rd Energy Package the Office was granted with the responsibility to monitor the compliance with TSO´s investment plans including a 10 year development plan under the relevant provisions of the Directive No. 2009/EC/72.

I.2. Support to competition

Wholesale market

The key players in the electricity market in the Slovak Republic in 2012 were the following enterprises:

- Slovenské elektrárne, a. s. (hereinafter only „SE, a. s.") – the most significant (dominant) electricity generator that in 2012 provided 69.68 % of electricity generation in Slovakia from internal generation plants. Electricity production amounting to 19,785 GWh covers 68.73 % of electricity generation in the Slovak Republic. An installed capacity in internal generation plants owned by SE, a.s. is 4,992.9 MW. Apart from household consumers the company provided its 37 consumers on the restricted territory with total supply being 17,945, of which 2,360 GWh was for final consumers.
- SEPS as a sole holder of electricity transmission licence, the national TSO acting as the energy dispatcher (providing the balance on the restricted territory of the Slovak Republic). In October 2010 SEPS founded a daughter company OKTE, a.s., whose role is to evaluate and organise the short-term day ahead electricity market and to ensure the settlement of deviations on the territory of the Slovak Republic.
- OKTE a.s., an organiser of the short-term day ahead market with electricity as an institution for assessment and organisation of the short-term day ahead market and ensuring the financial settlement, assessment and deviation settlement on the territory of the Slovak Republic.
- ZSE Distribúcia, a. s. (Western Slovak Power Utility), Stredoslovenská energetika - Distribúcia, a. s. (Central Slovak Power Utility – Distribution) and Východoslovenská distribučná, a. s. (Eastern Slovak Power Utility) – exclusive operators of regional distribution systems (hereinafter only „RDS") on the respective parts of the restricted territory where more than 100,000 points of supplies are connected. Apart from the above-mentioned three companies in the electricity market there are also 159 holders of electricity distribution license. These are the operators of local distribution systems within the premises of both manufacturing and non-manufacturing companies where fewer than 100,000 points of supplies are connected.

- ZSE Energia, a. s., Stredoslovenská energetika a. s. (hereinafter only „SSE") and Východoslovenská energetika, a. s. (hereinafter only „VSE") – dominant electricity suppliers (hereinafter only „retail suppliers"), being part of the vertically integrated company that at the same time provides electricity distribution. A proportion of electricity supply of these three companies on the electricity consumption of the Slovak Republic in 2012 accounted for 47.18 %, which represents a 6.83 decline, compared to 2011. If needed, final electricity consumers also act as the last resort supplier on a respective part of the restricted territory.
- The overall number of entities that possess valid license for electricity supply is 407, of which 41 electricity suppliers provided electricity supply to household consumers.

Price monitoring

Monitoring the wholesale market with electricity is in the competence of the Quality and Analysis Division established by the Office especially for this purpose.

Trading with electricity is made especially based on bilateral trades concluded under the market conditions, usually via various broker platforms, Prague Power Exchange and European Energy Exchange EEX that are regarded as the most transparent and fair way of trading electricity in the long-term basis in this region. Residual electricity sold annually is traded on the short-term basis in the Slovak short-term day ahead market and neighbouring markets on bilateral basis, again mainly via broker platforms. This volume represents approximately 10 % of total annual production. Considering the size and liquidity of the Slovak energy market it is important to export or import on a daily basis. The advantage of the Slovak market with electricity is a good connection of the power system with the neighbouring markets. Following the completion of the construction of units 3 and 4 of the nuclear power plant Mochovce to the system, security of electricity supplies in Slovakia as well as within the common EU market will be partly restored and export potential of the country in the electricity market will be partly revived as well.

At the moment the market is dealing with the issue of expansion of renewable energy sources in Europe with the impact on the functionality of the power system, as well as the final electricity prices. The growing electricity demand indicates the revival of economy.

Retail market

Price monitoring

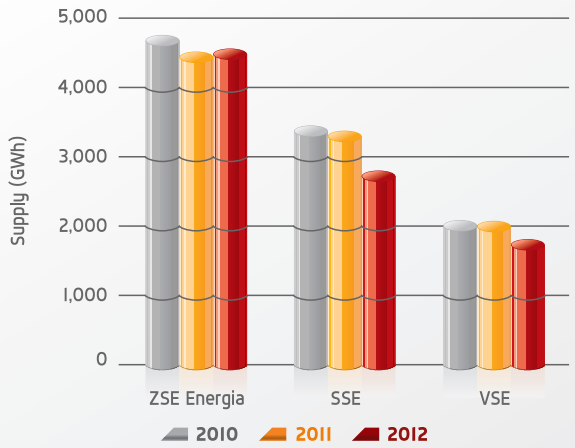
Towards the end of 2012 407 licensed entities allowed to do business in the electricity industry were offering electricity supply (an increase by 15 new entities in 2012). A gradual growth of electricity supplies provided by new entrants reached a significant level and today we do not distinguish suppliers in terms of traditional and alternative, but in terms of new and old or large and small.

The selected indicators that characterise a share of three major electricity suppliers in the market are presented in the following chart:

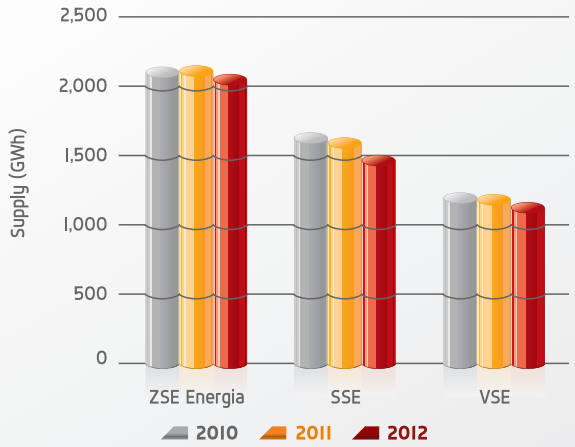
The selected indicators that characterise a share of three major electricity suppliers in the market

Indicator/Year	unit	2010	2011	2012
Electricity supply by ZSE Energia	GWh	6 782	6 540	6 520
Electricity supply by SSE	GWh	5 001	4 887	4 197
Electricity supply by VSE	GWh	3 201	3 188	2 863
Electricity supply by ZSE Energia + SSE + VSE total	GWh	14 984	14 616	13 580
Share of electricity supply by ZSE Energia + SSE + VSE totally in total electricity consumption in Slovakia	%	52,1	50,64	47,18
Electricity supply by ZSE Energia for off-household electricity consumers	GWh	4 685	4 433	4 473
Electricity supply by SSE for off-household electricity consumers	GWh	3 372	3 295	2 731
Electricity supply by VSE for off-household electricity consumers	GWh	2 007	2 004	1 739
Electricity supply by ZSE Energia + SSE + VSE for off-household electricity supply	GWh	10 064	9 732	8 943
Electricity supply by ZSE Energia for household electricity consumers	GWh	2 098	2 108	2 047
Electricity supply by SSE for household electricity consumers	GWh	1 629	1 592	1 467
Electricity supply by VSE for household electricity consumers	GWh	1 193	1 184	1 124
Electricity supply by ZSE Energia + SSE + VSE for household electricity suppliers	GWh	4 920	4 884	4 638

Electricity supplied to off-household electricity consumers by traditional electricity suppliers

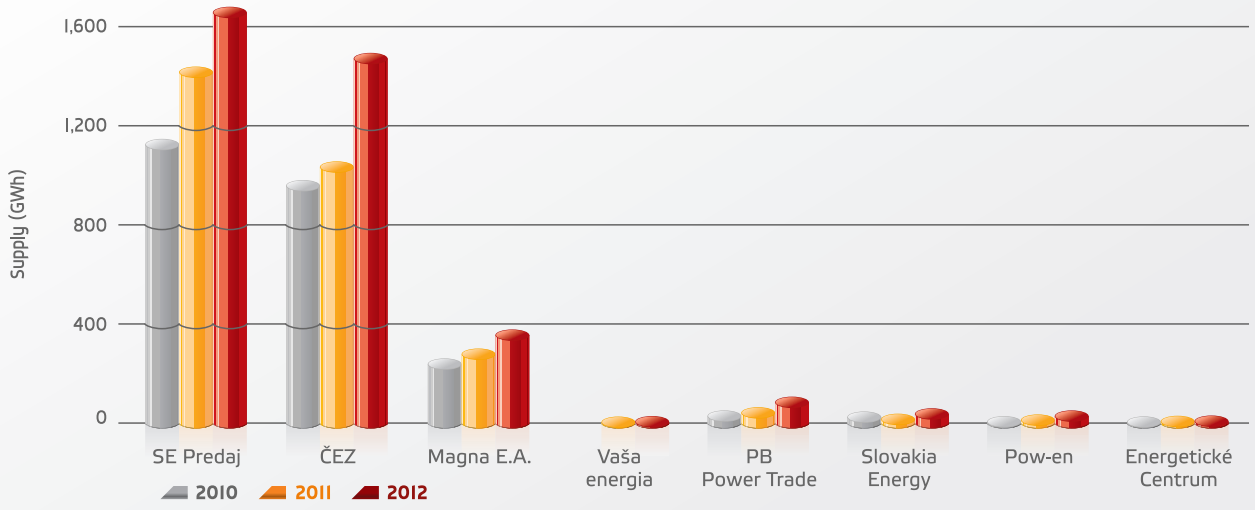


Electricity supplied to household electricity consumers by traditional electricity suppliers

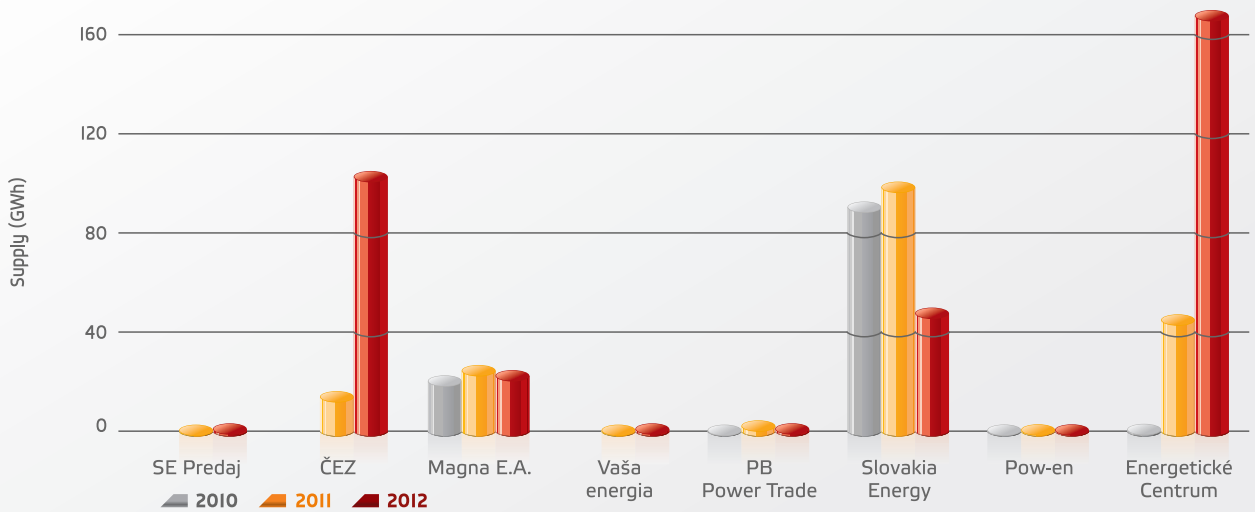


Indicator/Year	unit	2010	2011	2012
Electricity supply by SE Sales for off-household electricity consumers	GWh	1 125	1 423	1 659
Electricity supply by ČEZ for off-household electricity consumers	GWh	961	1 036	1 475
Electricity supply by Magna E.A. for off-household electricity consumers	GWh	239	280	358
Electricity supply by „Vaša energia" for off-household electricity consumers	GWh	0	2	4
Electricity supply by PB Power Trade for off-household electricity consumers	GWh	29,9	44,9	84,4
Electricity supply by Slovakia Energy for off-household electricity consumers	GWh	24	19	38,6
Electricity supply by Pow-en for off-household electricity consumers	GWh	2,7	12	28
Electricity supply by „Energetické Centrum" company for off-household consumers	GWh	0,057	2,3	3,9
Electricity supply by SE Sales for household electricity consumers	GWh	0	0,071	1,5
Electricity supply by ČEZ for household electricity consumers	GWh	0	14	103,6
Electricity supply by Magna E.A. for household electricity consumers	GWh	21	24,6	22,9
Electricity supply by „Vaša energia" company for household electricity consumers	GWh	0	1,4	2,8
Electricity supply by PB Power Trade for household electricity consumers	GWh	0,148	2,1	1,3
Electricity supply by Slovakia Energy for household electricity consumers	GWh	91	99	48
Electricity supply by Pow-en for household electricity consumers	GWh	0,0086	0,421	0,439
Electricity supply by „Energetické Centrum" company for household electricity consumers	GWh	1,087	45	168

Off-household alternative suppliers



Household alternative suppliers

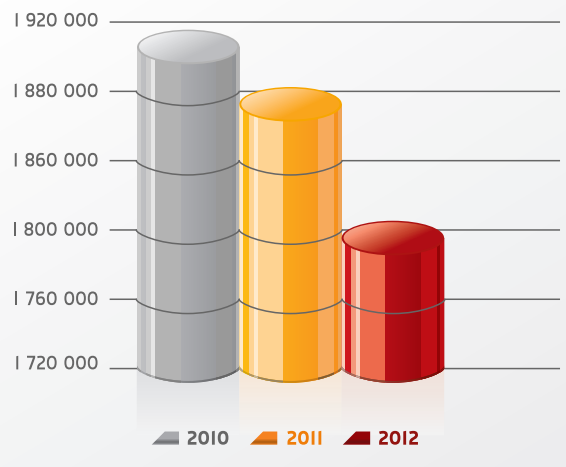


From 2010 to 2012 traditional electricity suppliers, or alternative suppliers, supplied electricity to household electricity consumers as follows:

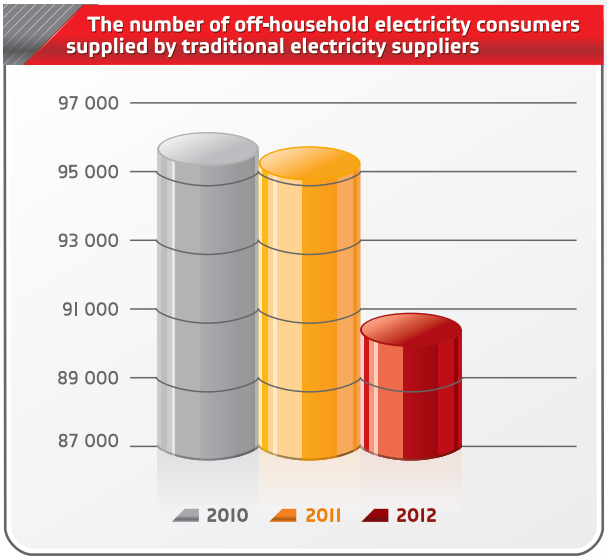
Traditional electricity suppliers or alternative suppliers, supplied electricity to household electricity consumers

Indicator/Year	2010	2011	2012
No. of household electricity consumers supplied by traditional electricity suppliers	1 905 239	1 872 394	1 794 974
No. of off-household electricity consumers supplied by traditional electricity suppliers	95 699	95 306	90 445
No. of household electricity consumers by alternative electricity suppliers	22 379	58 124	130 014
No. of off-household electricity consumers supplied by alternative electricity suppliers	11 079	11 304	13 864
No. of OM in households supplied by traditional electricity suppliers	2 071 233	2 036 394	1 978 778
No. of OM off-households supplied by traditional electricity suppliers	278 534	269 482	255 767

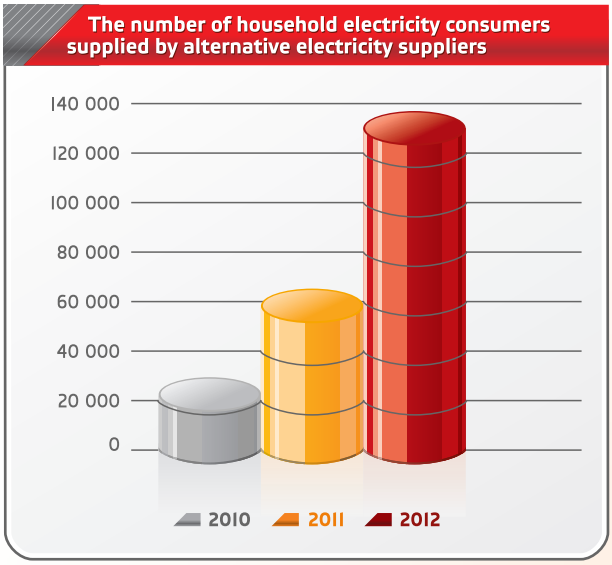
The number of household electricity consumers supplied by traditional electricity suppliers



The number of off-household electricity consumers supplied by traditional electricity suppliers



The number of household electricity consumers supplied by alternative electricity suppliers



The number of off-household electricity consumers supplied by alternative electricity suppliers



The progress in liberalisation and the development of the electricity market are manifested by the annual increase in the number of electricity consumers that switched their electricity suppliers. The development is illustrated by the following data:

The number of electricity consumers that switched their electricity suppliers

Indicator/Year	2010	2011	2012
No. of household consumers switching their suppliers	17 171	39 762	57 307
No. of off-household consumers switching their suppliers	4 644	2 985	2 986

When switching the electricity supplier the decisive criterion is mainly the electricity price and quality of services (advisory services, personal attitude and individual offer, contractual terms and conditions, comprehensive services related to electricity supply and so on). It is well known that almost half of the businesses have tariffs and rates determined unfavourably and they could save a significant part of costs for electricity supply. However, sleazy and untransparent practices of some new electricity suppliers are perceived negatively, therefore the Office was forced to take various restrictive measures and intensify its supervisory activities.

Monitoring transparency including the compliance with the obligations associated with transparency and the level and efficiency of the opening and competition in the market

Apart from price regulation, in compliance with the Act No. 250/2012 Coll. on Regulation in Network Industries, the Office develops the rules for the functioning of the electricity market that lay down rights and obligations of the market participants and the conditions for the functioning of the liberalised market with electricity in Slovakia. Another binding document being relevant for electricity market participants, promoting transparency and efficiency of the electricity market, are the operational orders approved by the Office in which the system operators incorporated the electricity market rules, considering operational conditions. As required by the system operators in 2012 the Office made evaluation and gave approval to 19 operational orders.

If some of the electricity suppliers are unable to provide electricity supply for their electricity consumers, according to the Energy Act, such electricity consumers will be served by the last resort supplier. At the moment the following companies act as last resort suppliers: Západoslovenská energetika, a.s., Stredoslovenská energetika, a.s. and Východoslovenská energetika a.s. on the territories restricted by respective regional distribution system. In 2012 the concept of last resort supplier was used by two alternative electricity suppliers. In both cases framework distribution agreements were determined due to the failure to comply with the obligations arising out of the agreements in question by alternative electricity suppliers.

According to the Act on Regulation an important new competence of the Office is approval of trading conditions applicable for the electricity supplier that provide universal service (hereinafter only „Trading Conditions"). In a period starting from September 1, 2012 to the end of 2012 the Office approved 5 price decisions related to trading conditions. Trading conditions make an inseparable part of agreements on electricity supply and specify in detail rights and obligations for both the electricity consumer and the electricity supplier.

Recommendations for Electricity Supply Prices

The Office directly performs price regulation of household electricity supplies.

Practical experience of the electricity market participants that required legislative amendments were taken into consideration by the Office in the Decree laying down the rules for the functioning of the market with electricity and natural gas.

New primary energy legislation implementing the 3rd Energy Package included many new measures for the improvement of the position of electricity consumers either by eliminating the administrative burden for the electricity market participants, thus ensuring a higher flexibility of the market environment as well as extending the range of obligations applicable for regulated companies. The details related to such measures were incorporated into the Office Decree, laying down the rules for the functioning of the market with electricity and natural gas. New primary legislation enabled the Office to approve generally binding trading conditions applicable for electricity suppliers, which also contributed to the protection of the electricity consumer.

The measures to ensure the compliance with the market rules include the following:

- Monitoring the compliance with the approved operational orders of distribution companies, their harmonisation with valid primary and secondary legislation and its practical implementation,
- Monitoring the compliance with quality standards related to electricity transmission, electricity distribution and electricity supply laid down by the Decree, thus ensuring the protection of the rights of electricity consumers with the intention to guarantee high quality and failure-free services and provide guidance to system operators and electricity suppliers to make them behave more effectively and to ensure safe and reliable performance of regulated activities,
- Monitoring the compliance with the Office Decree specifying the details on the method of unbundled record keeping with regard to the matters subject to accounting and on the method of keeping the assets and liabilities records in order to hinder any discrimination and cross-subsidies among individual activities provided by the system operators that in addition to regulated activities perform other activities.





II. The Natural Gas Market

In 2012 the gas supply market in the Slovak Republic experienced a dynamic growth in competition. In the category of the household gas consumers the number of switches of gas suppliers increased six times, compared to 2011. A possibility of switching was used by more than 131,000 households, which is 11.56 % of all households. Along with the traditional company Slovenský plynárenský priemysel, a.s. (hereinafter only „SPP"), there were 22 other competitive gas traders, of which the most important position is occupied by RWE Gas Slovensko, s.r.o. The trend in switching the gas supplier is presented in Chapter 6.2.

The consumption of natural gas by final gas consumers in the Slovak Republic achieved 54.2 TWh. Compared to 2011, it makes a decline by 6.4%.

Gas market participants

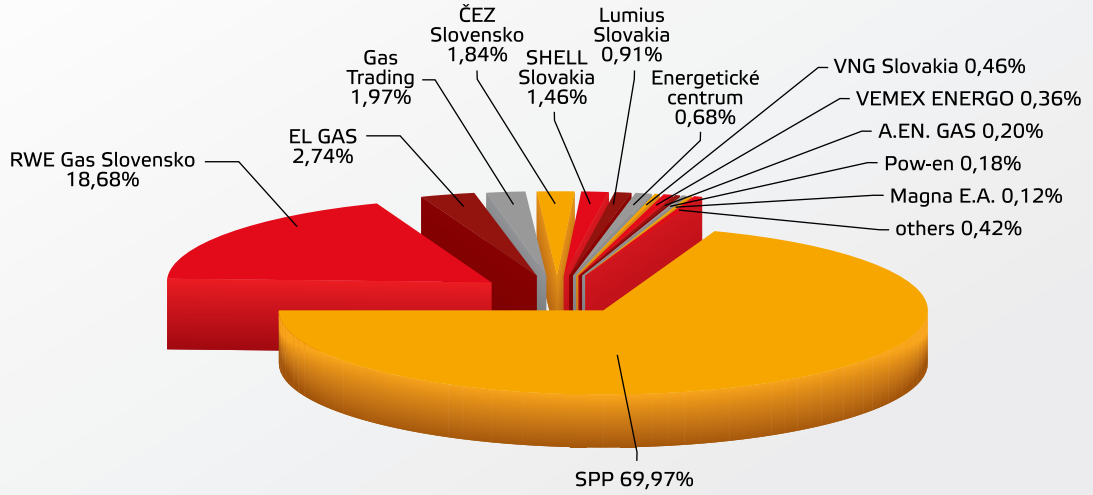
The major gas market participants in the Slovak Republic in 2012:

a) The transmission system operator (eustream, a.s.),
b) The operator of the distribution system on the restricted territory of the Slovak Republic (SPP-distribúcia, a.s.),
c) Gas storage operators (POZAGAS a.s., NAFTA a.s.),
d) Dominant gas supplier (SPP),
e) 22 gas traders in the gas supply market,
f) Gas consumers.

In 2012 the most significant player in the market with gas supplies to final gas consumers was the traditional gas supplier SPP having a 70 % share, then RWE Gas Slovensko, s.r.o. that achieved a 18.7 % market share, ELGAS, s.r.o. company achieved 2.7 % market share. Other gas traders achieved a 8.6 % share in total gas consumption.

A market share of the gas suppliers:

A market share of the gas suppliers



Roughly 98 % of domestic gas consumption is covered by gas import. Natural gas supply for the needs of the Slovak market is provided by SPP based on the long-term agreement with the Russian company Gazprom Export being the main natural gas supplier. Other gas traders purchased gas from various mostly foreign gas suppliers.

A market share of gas suppliers:

A market share of gas suppliers

Gas supplier	% share
SPP a.s.	69,97 %
RWE Gas Slovensko s.r.o.	18,68 %
ELGAS, s.r.o.	2,74 %
Gas Trading s.r.o.	1,97 %
ČEZ Slovensko s.r.o.	1,84 %
SHELL Slovakia s.r.o.	1,46 %
Lumius Slovakia s.r.o.	0,91 %
Energetické centrum a.s.	0,68 %
VNG Slovakia s.r.o.	0,46 %
VEMEX ENERGO s.r.o.	0,36 %
A.En. GAS a.s.	0,20 %
Pow-en a.s.	0,18 %
Magna E.A. s.r.o.	0,12 %
Energie2 a.s.	0,11 %
ZSE Energia a.s.	0,07 %
BCF s.r.o.	0,06 %
LAMA energy a.s.	0,06 %
Slovakia Energy, s.r.o.	0,03 %
Komunal Energy s.r.o.	0,03 %
MET Slovakia a.s.	0,02 %
Stredoslovenská energetika, a.s.	0,02 %
Vaša energia s.r.o.	0,01 %
V-Elektra Slovakia s.r.o.	0,01 %

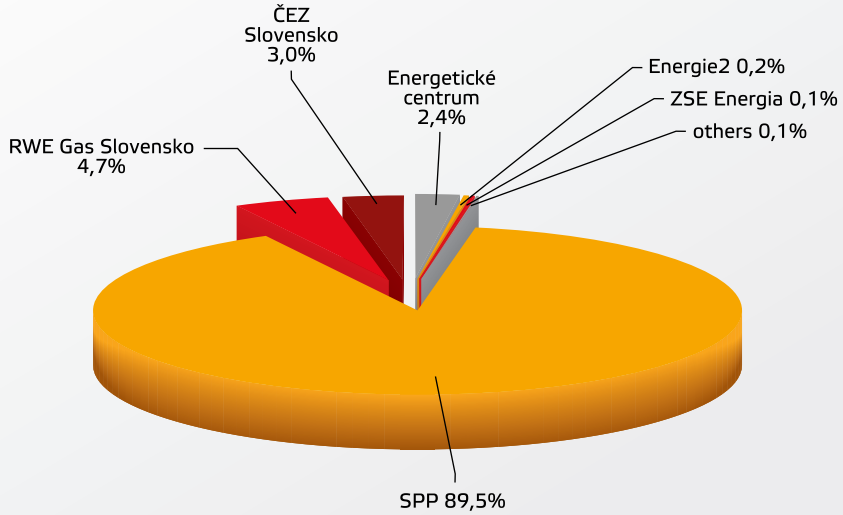
The competitors of SPP company in the area of gas supplies to final gas consumers were mainly RWE Gas Slovensko, s.r.o., ELGAS, s.r.o., SHELL Slovakia, s.r.o. and ČEZ Slovensko, s.r.o.

In 2012 the Office recorded more than 100 gas supply licensees of which 23 licensees (listed in the legend of graph No. 3) supply gas to final gas consumers. The second group of gas suppliers is made by so-called local gas suppliers that own or have rented a local distribution system or supply gas to consumers that have their extraction points placed within their premises. There are 35 such suppliers as recorded by the Office. Other companies, despite the fact that they are licensees, do not perform a regulatory activity – gas supply.

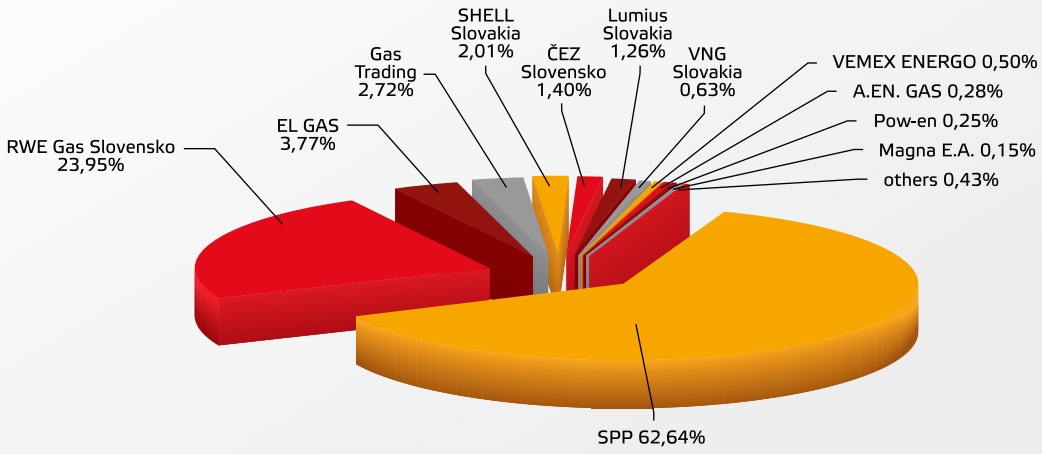
Regarding gas supplies for household gas suppliers, apart from the dominant gas supplier i.e. the SPP company, the following companies supplied gas to households: RWE Gas Slovensko, s.r.o., ČEZ Slovensko, s.r.o., Energetické centrum, a.s., Vaša energia s.r.o., Slovakia Energy, s.r.o., Energie2, a.s. a MAGNA E.A. s. r.o. These companies used maximum prices for household gas supplies set by the Office being lower than SPP. In 2012 some companies that received from the Office price decisions for gas supply to households did not obtain any household gas consumers.

A market share of gas supplies to household gas suppliers:

A market share of gas suppliers to household gas suppliers



A market share of gas suppliers for other gas consumers



A market share of gas suppliers for industrial gas consumers

SPP a.s.	62,64%
RWE Gas Slovensko s.r.o.	23,95%
ELGAS, s.r.o.	3,77%
Gas Trading s.r.o.	2,72%
SHELL Slovakia s.r.o.	2,01%
ČEZ Slovensko s.r.o.	1,40%
Lumius Slovakia s.r.o.	1,26%
VNG Slovakia s.r.o.	0,63%
VEMEX ENERGO s.r.o.	0,50%
A.En. GAS a.s.	0,28%
Pow-en a.s.	0,25%
Magna E.A. s.r.o.	0,15%
BCF s.r.o.	0,09%
LAMA energy a.s.	0,08%
Energie2 a.s.	0,06%
ZSE Energia a.s.	0,06%
Komunal Energy s.r.o.	0,04%
Slovakia Energy, s.r.o.	0,03%
MET Slovakia a.s.	0,03%
Energetické centrum a.s.	0,02%
Stredoslovenská energetika, a.s.	0,02%
Vaša energia s.r.o.	0,01%
V-Elektra Slovakia s.r.o.	0,01%

II.1. Network regulation

In 2012 the Office carried out price regulation of

- Connection to the transmission and distribution systems,
- Access to the transmission system and gas transmission,
- Access to the distribution system and gas distribution,
- Access to the gas storage tank and gas storage,
- Provision of ancillary services in the gas industry in compliance with the Decree of the Office No. 189/2011 Coll. on the scope of price regulation in network industries and the method of performance of price regulation in the gas industry.

Unbundling

The Slovak gas market has only one single operator of the transmission system which is eustream, a.s. (hereinafter only „eustream") and the monopoly operator of the distribution system SPP-distribúcia, a.s. (hereinafter only „SPP-distribúcia"), covering the whole territory of the country. Those companies were established as 100 % daughter companies by legal unbundling of transmission and distribution activities from the originally monopoly vertically integrated company SPP. The parent company SPP performs the activities in the field of gas trading and gas supply. Legal unbundling of SPP was completed in line with the so-called 2. Energy Package of European Legislation in effect since July 1, 2006 that was transposed into national legislation in 2005.

A new Act on Energy effective since September 1, 2012 that transposed the Directive of the European Parliament and Council No. 2009/73/EC, specified the possibilities related to the method of unbundling of the transmission system operator, the process of certification and thereby granting new powers to the Office. The certification process is given by the Office Decree No. 347/2012 Coll. with the date of effect on November 20, 2012, laying down the details regarding the issuance of a decision on certification of papers and a list of documents attached to the proposal.

In compliance with Article 9 Section 8 of the Directive of the European Parliament and Council No. 2009/73/EC Slovakia opted for the model of an independent transmission system operator, the so-called ITO model. By using the ITO model the eustream company remains part of the vertically integrated company, whereas such model imposed an obligation for eustream company to prove the Office its independence inter alia by the ownership of the assets required for gas transmission including the transmission system. Eustream company submitted the proposal to initiate the certification process in accordance with the Energy Act.

The Directive of the European Parliament and Council No. 2009/73/EC in Article 26 Section 2 Letter c) determines the behaviour of the distribution system operator. The distribution system operator SPP – distribúcia must possess effective decision making rights independent from the integrated gas company and in order to accomplish its tasks it needs to have resources available, including human, technical, financial and material ones. The provisions of a new Energy Act related to the distribution system operator specify in detail the obligations regarding drafting and publishing the annual report including the information on measures adopted in the framework of the compliance programme and the Energy Act set the responsibility of the distribution system operator concerning the completion of tasks of the person responsible for the compliance.

Technical functionality of the system

Transmission system

Gas transmission for the needs of the Slovak and foreign markets is provided via the high pressure transmission system operated based on the entry-exit tariff system by the single operator of the transmission system, the eustream company.

The gas supply system is made of four to five parallel pipelines with the diameter of 1200/1400 mm with the operational pressure being 73 bars. Pressure differential required for the uninterrupted gas supply is ensured by four compressor stations with the capacity of more than 1000 MW. The most significant compressor station is situated in Veľké Kapušany on the Slovak-Ukrainian borders. Having the overall capacity of more than 300 MW it is the largest compressor station in the EU. Technical capacity at the entry point Veľké Kapušany is almost 300 mil m^3 per day.

Eustream company published the following information on its official website:

- Information on transmission capacities and related services provided in the gas market,
- Scheduled investments into the transmission system,
- Maintenance schedule of the transmission system,
- Free transmission capacities at all entry and exit points of the transmission system,
- Application form for the transmission system.

The number of submitted documents on quality standards evaluation

Gas industry	Gas storage	Gas transmission	Gas distribution	Gas supply
No. of delivered evaluations	2	1	35	49
No. of recorded events	684	47	45 012	202 828
No. of recorded events with violated quality standard	0	0	2	5 205
Share of events with violated quality standards to recorded events	0 %	0 %	0,004 %	2,57 %

Distribution system

In 2012 gas was distributed mainly by the largest operator of the distribution system SPP – distribúcia whose networks cover the whole territory of the Slovak Republic and provide the distribution of almost 98% of total volume of gas distributed in the Slovak Republic. Out of the total number of 2,928 towns and villages in Slovakia in 2012 2,234 of them, 94 % of all inhabitants in Slovakia, were gasified. For this reason Slovakia, after the Netherlands, is the second most gasified country in the European Union. Out of the total length of the distribution system 33,079 km as of December 31, 2012 the high-pressure gas pipelines are 6,294 km long and medium-pressure and low-pressure gas pipelines are 26,785 km long. Services by SPP-distribúcia in 2012 are provided by means of the signed contract on access to the distribution system and gas distribution for its consumers were used by 23 gas traders.

The development of investments made into the renovation and upgrading of the distribution system operated by SPP-distribúcia in the years 2010 to 2012

The development of investments made into the renovation and upgrading of the distribution system

	2010	2011	2012
Investments (in mil. €)	47	45	42

System balancing

SPP-distribúcia also functions as the National Gas Dispatch Centre, which physically balances the gas network of the Slovak Republic that is treated as one balancing zone.

SPP-distribúcia company provided the daily trading balancing for the users of the distribution system by making calculations of daily and cumulated deviations between the quantities of gas at the entry points into the distribution system and the quantities of actually outgoing from the distribution system. At the same time, SPP-distribúcia keeps for the users of the distribution system the balancing account and conducted the deviation settlement.

Physical balancing of the distribution system of SPP-distribúcia is provided by means of the gas extraction from the gas storage tank when balancing the shortage of gas or making injection of gas into the gas storage when balancing excess gas in the distribution system. In 2012 no problems occurred in the distribution system caused by the unbalance in the distribution system.

Underground gas storage tanks

On the territory of the Slovak Republic the underground gas storages are operated by two companies: NAFTA a.s. (hereinafter only „NAFTA"), operating the train of underground storage tanks Láb 1.-3. and Gajary-Báden and POZAGAS a.s. (hereinafter only „POZAGAS"), that operates an underground gas storage tank Láb 4. near Malacky. A gas storage tank Dolní Bojanovice, situated on the territory of the Czech Republic connected to the Slovak gas system and is used for the needs of physical balancing of the distribution system in Slovak Republic and technical needs of the distribution system operator.

Gas storage tanks first of all ensure the balancing of differences between the quantities of gas demand and gas supply. They serve predominantly for storing natural gas in the summer season and for gas production in the winter season when gas demand is higher than contractually agreed gas supply in Slovakia. Gas storage tanks are also an effective tool to ensure the security of gas supplies. The operators of gas storage tanks store natural gas not only for the participants of the gas market in the Slovak Republic but also for foreign gas companies. Both operators of gas storage tanks on the territory of the Slovak Republic offer free capacities through public bidding. One of the main criteria for the storage capacity allocation is the level of the price offered by those interested in using storage capacity while respecting the regulated cap price.

Network tariffs and tariffs for connection and access to LNG

At present there is no LNG facility operated on the territory of Slovakia.

II.2. Network tariffs

2012 price regulation was carried out under the Decree of the Office No. 216/2011 Coll. which determines price regulation in the gas industry (hereinafter only „ the Decree No. 216/2011 Coll."). The Office followed this decree when setting or approving the prices for access to the transmission system and for gas transmission, access to the distribution system and gas distribution and gas storage and provision of ancillary services in 2012.

Prices determined by the Office through price decisions are published on the official web site and also on web sites of respective regulated companies. Prices are proposed to eliminate any cross-subsidies between individual gas consumers.

Considering the recent experience it may be stated that the situation with „network tariffs" in the gas industry was stable, price setting was transparent and regulated companies have had and also will have ensured the coverage of all eligible costs based on the principle of their adequacy, return on investment and an adequate profit comparable with other EU member states, while they are constantly required to perform more effectively.

Price regulation of access to the transmission system and of gas transmission is made through direct determination of the comparable price by making a comparison of price for natural gas transmission in the Slovak Republic with the prices in other member states. Comparable prices for access to the transmission system and gas transmission are determined in the form of tariff. The entry-exit tariff system is in use.

Price regulation of access to the distribution system and gas distribution is made through the price cap method. It is incentivisation method used in other EU member states which provides the distribution system operator with an opportunity to retain the higher profit earned on condition they behave effectively and optimise their costs. The price cap method helps to achieve the stable price in the course of the entire regulatory period, taking into account new investments.

The basic parameters of the regulatory pattern for the price cap, such as the value of regulatory asset base, operating costs, depreciations, an adequate profit based on the outputs of the evaluation of the previous regulatory

periods were determined for the base year of the regulatory period, i.e. for the year 2012. For other years the 2012 price determined this way will be optimized by using the factor (JPI–X) and other factors.

The maximum price for access to the distribution system and gas distribution is determined in the form of tariffs using the so-called postage stamp method.

Price regulation of the access to the distribution system and gas distribution for the operators of local distribution systems (the systems having fewer than 100,000 off-take points are connected) is based on the cost-based regulation method.

Transmission system operator

In terms of the quantities of gas transmission for Slovak and foreign consumers Slovakia is the largest transporter of Russian natural gas to the EU, with the amount being 56.5 bil. m^3 per year 2012 with the annual capacity of the transmission system more than 90 bil. m^3.

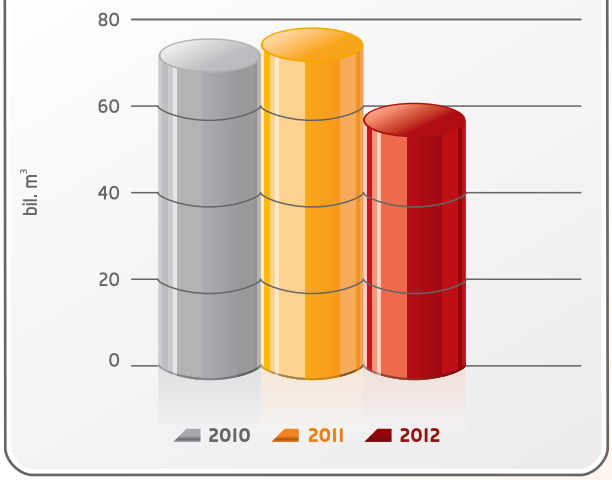
The method of price regulation of access to the transmission system and gas transmission is based on the Act on Regulation and is given by direct setting of the comparable price based on the analysis of prices for gas transmission to other EU member states and prices for gas transmission in the Slovak Republic. The analysis makes a comparison of the total average price for gas transmission including the conversion to unit of length measurement, while taking into account a respective distance of exit and entry points of the transmission system. In 2012 the Office approved for eustream the comparable prices for access to the transmission system and gas transmission in the form of tariffs. Tariffs are determined for individual entry and exit points of the transmission system (the entry-exit system) and are applicable for both Slovak and foreign users of the transmission system. In compliance with the applicable Market Rules respective tariffs also include the appraisal of new entry-exit point Veľké Zlievce as part of the planned project of the Slovak-Hungarian inter-connection of the transmission networks.

The initial tariff rates in all tariff groups where the users were divided depending on the contractually agreed daily capacity of gas transmission were increased by 0.5 % on average in 2012, compared to 2011, which was influenced by the inflation rate in EU countries for 2010 at the level of 1.0 %, while only its 50% value is included into the escalation factor.

The gas transmission development trends in 2010–2012

	2010	2011	2012
The amount of gas transm. (in bil. m^3)	71,4	74,0	56,5

The development of gas transmission in 2010–2012



Based on the calculation of the Office using the model example of the calculation of total annual payment for gas transportation the standard industrial consumer in Slovakia I4 according to Eurostat with a different factor of network load 250 and 330 days on the transmission path Veľké Kapušany – the local point pays for gas transmission by 1.05 % more in 2012 than in the previous year.

A comparison of the base tariff rate at entry points to the transmission system (in eur/m³ of ordered daily transmission capacity) according to the size of daily capacity (T1 to T4) in 2010 to 2012

Tariff	Lanžhot			Baumgarten			Veľké Kapušany			Veľké Zlievce			Local point		
group	2010	2011	2012	2010	2011	2012	2010	2011	2012	2010	2011	2012	2010	2011	2012
T1	0,2961	0,2976	0,3007	0,5338	0,5364	0,5420	1,6188	1,6269	1,6440	0,8019	0,8059	0,8144	0,8019	0,8059	0,8144
T2	0,3007	0,3023	0,3054	0,5421	0,5448	0,5505	1,6441	1,6523	1,6697	0,8144	0,8185	0,8271	0,8144	0,8185	0,8271
T3	0,2119	0,2129	0,2151	0,3818	0,3837	0,3877	1,1580	1,1638	1,1761	0,5736	0,5765	0,5826	0,5736	0,5765	0,5826
T4	0,1560	0,1567	0,1583	0,2810	0,2824	0,2853	0,8523	0,8566	0,8656	0,4222	0,4243	0,4288	0,4222	0,4243	0,4288

A comparison of the base tariff rate at exit points from the transmission system (in eur/m³ of the ordered daily transmission capacity) according to the ordered daily capacity (T1 to T4) in 2010 to 2012

Tariff	Lanžhot			Baumgarten			Veľké Kapušany			Veľké Zlievce			Local point		
group	2010	2011	2012	2010	2011	2012	2010	2011	2012	2010	2011	2012	2010	2011	2012
T1	1,6098	1,6179	1,6349	1,8310	1,8401	1,8594	2,2492	2,2604	2,2842	0,8179	0,8220	0,8307	0,8256	0,8297	0,8384
T2	1,6350	1,6432	1,6605	1,8596	1,8689	1,8885	2,2844	2,2958	2,3199	0,8307	0,8349	0,8437	0,8385	0,8427	0,8515
T3	1,1516	1,1574	1,1696	1,3098	1,3163	1,3301	1,6090	1,6171	1,6340	0,5851	0,5880	0,5942	0,5905	0,5936	0,5998
T4	0,8476	0,8518	0,8608	0,9640	0,9688	0,9790	1,1842	1,1902	1,2026	0,4306	0,4328	0,4373	0,4346	0,4369	0,4415

Regulated price for connection to the transmission network is calculated based on eligible costs required for documentation, technical and implementation phases of the connection approved by the Office based on the submitted price proposal. In 2012 the Office released two price decisions regarding the connection to the transmission network.

Distribution system operator

Price regulation of gas distribution in 2012 was carried out for regulated companies whose:

a) number of off-take points from the distribution system is higher than 100,000, i.e. for the operator of the distribution system SPP – distribúcia that at the same time fulfils the task of the Gas Dispatch Centre on the restricted territory,

b) number of off-take points from the distribution network does not exceed 100,000, including mostly the distribution system operators on the restricted territories, the so-called local distribution networks.

Regarding access to the distribution system and gas distribution for SPP – distribúcia the price cap method was applied. The method intends to put incentives for a regulated company, thus allowing an entity to generate the sufficient amount of available financial resources with the effective behaviour of the operator focused on cost optimisation. Considering the positive results from the previous regulatory period such method was also maintained in 2012–2016.

In 2011 the Office issued a price decision for SPP – distribúcia, approving the 2012 tariffs for access to the high pressure distribution system and gas distribution and tariff for provision of ancillary services that are not provided in the framework of tariffs for access to the distribution system and gas distribution.

Tariffs for gas distribution are determined on the postage stamp principle, i.e. according to the annual quantity of distributed gas regardless of the distance of an off-take point and were proposed to eliminate any cross-subsidies between individual gas consumer groups. Tariffs also include charges for exceeding the contractually agreed distribution capacity. The annual rate for maximum amount of daily gas is used for gas consumers with annual distributed amount of natural gas exceeding 60 thous. m^3.

For SPP – distribúcia company the Office through its decision in 2012 also approved the prices for connection to the distribution network and this is made for the category of household gas consumers and for off-household gas consumers, not exceeding the scheduled average costs for connection to the distribution network.

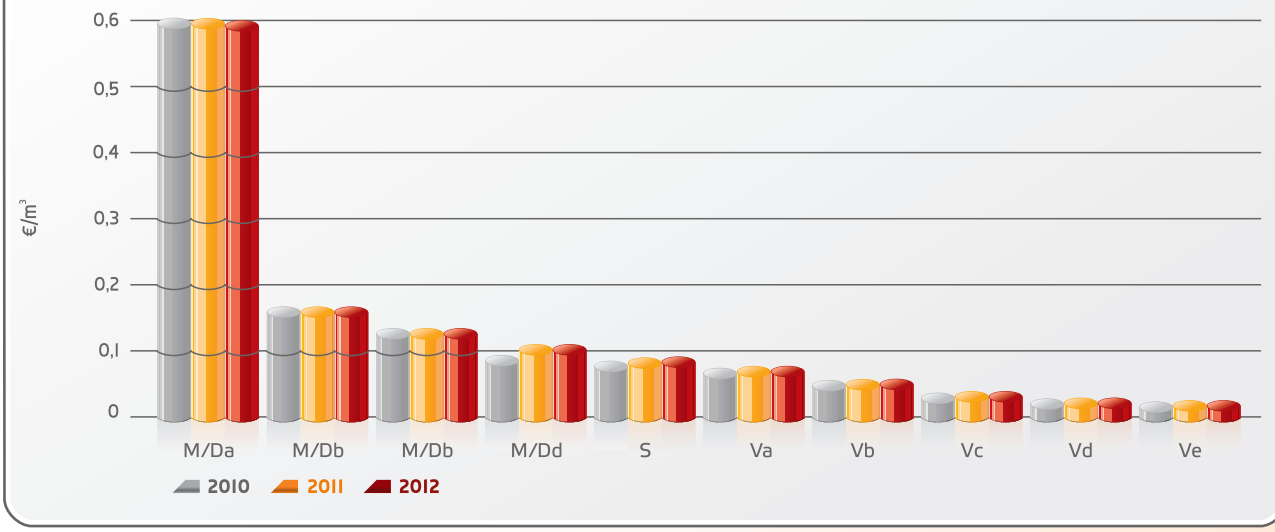
The following chart illustrates the development of average prices for gas distribution in individual tariffs in 2011 to 2013 calculated on the basis of the scheduled data for 2013.

The development of average prices for gas distribution in individual tariffs in 2011 to 2013 (w/o VAT)

Tariff according to the annual amount of distributed gas in m^3	2011 (€/m^3)	2012 (€/m^3)	2013 (€/m^3)
M/Da (up to 200)	0,5958	0,5959	0,5924
M/Db (above 200 up to 1 700)	0,1609	0,1610	0,1608
M/Dc (above 1 700 up to 6 500)	0,1277	0,1278	0,1272
M/Dd (above 6 500 up to 60 thous.)	0,0870	0,1039	0,1039
S (above 60 thous. up to 400 thous.)	0,0785	0,0836	0,0847
Va (above 400 thous. up to 2 mil.)	0,0686	0,0710	0,0710
Vb (above 2 mil. up to 15 mil.)	0,0494	0,0509	0,0508
Vc (above 15 mil. up to 25 mil.)	0,0308	0,0323	0,0323
Vd (above 25 mil. up to 300 mil.)	0,0220	0,0230	0,0230
Ve (above 300 mil. up to 500 mil.)	0,0182	0,0191	0,0191

Price regulation of access to the distribution network and gas distribution for the operators of local distribution networks, i.e. networks where the number of off-take points does not exceed 100,000, was performed according to the cost-based regulatory method and therefore the final price reflects eligible costs of a regulated company incurred by the network operation, an adequate profit determined by the Office and correction of revenues depending on

The development of tariffs for access to the distribution system and gas distribution



the development of eligible costs of a regulated company from the previous period. In 2012 there were 47 local distribution companies performing regulated activities in the regions of Slovakia.

A price for connection to the distribution system operated by company´s distribution system as well as local distribution systems is determined for the price or tariff not to exceed the scheduled average costs of a regulated company incurred by the connection to the distribution network. Tariffs for connection to the distribution system are proposed for household gas consumers and for off-household gas consumers, respectively.

Underground gas storage tanks operators

In 2012 the access to storage tanks and gas storage were subject to price regulation by setting the maximum price. The background document to price proposal for access to gas storage operators is a comparable analysis of prices for access to a storage tank and gas storage provided by the operators of gas storage tanks in other EU member states that operate storage tanks with similar parameters as the operators of gas storage tanks in the Slovak Republic.

Storage capacity of the underground gas storage tank operators as of 31. 12. 2012

Underground storage tank operator	Technical working capacity (in mil. m^3/year)	Technical injection rate (in mil. m^3/day)	Technical production capacity (in mil. m^3/day)
NAFTA a.s.	2 335	23,50	31,20
POZAGAS a.s.	652	6,85	6,85
Total:	**2 987**	**30,35**	**38,05**

In the course of 2012 two operators of storage tanks offered their storage capacity - NAFTA and POZAGAS. The services of the operators were used by several Slovak companies providing gas supply services to consumers in the market of the Slovak Republic and foreign companies, mainly from Austria, Germany, the Czech Republic, the Netherlands, France and Hungary.

During the storage year of 2012/2013 NAFTA company adopted 48 application forms for access to a storage tank. 37 applications were declined due to the allocation of free storage capacity to winners of the tender. In 2012 there was no secondary trading with storage capacity. The capacity of storage tanks operated by NAFTA Company was used for 100 %.

A comparison of prices for access to the storage tank and for gas storage from 2010 to 2012 by individual storage services (w/o VAT)

Underground storage operator	Storage capacity (eur/(m^3/year))			Injection capacity eur/(m^3/day))			Production capacity (eur/(m^3/day))		
	2010	2011	2012	2010	2011	2012	2010	2011	2012
NAFTA a.s.	0,0642	0,0704	0,0686	2,3900	1,9300	2,0100	2,7600	2,3400	2,4400
POZAGAS a.s.	0,0649	0,0666	0,0629	3,4265	3,4625	3,4964	2,9465	3,0858	2,4721
Austria	0,6450	0,0633	0,0653	2,8800	3,2457	2,9700	3,3300	3,4698	3,5100
Czech republic	0,0718	0,0653	0,0237	-	-	-	-	-	-
Germany	0,0624	0,0715	0,0677	3,5400	3,6039	3,2700	3,5000	4,0970	3,7800

1) Nafta a.s. does not provide the working capacity as an individual service in the reviewed period
2) Data related to neighbouring markets were taken over from the comparative analysis
3) Data related to injection/production capacity for the Czech republic were not included into the comparative analysis

The utilisation of gas storage capacity operated by NAFTA, a.s. according to the individual customers

Storage tank users	2009 %	2010 %	2011 %	2012 %
SPP a.s.	59,00	60,15	61,23	61,94
RWE Transgas	23,00	23,43	22,80	22,04
GdF Suez	13,00	10,48	5,54	4,25
E.ON Ruhrgas	5,00	3,13	0,00	-
VITOL SA	-	1,17	1,45	4,33
VNG Nemecko	-	0,75	2,18	2,12
Shell Slovakia	-	0,30	0,91	0,88
Gunvor Inter. BV	-	0,16	0,16	-
ČEZ Slovensko	-	0,16	0,45	1,04
Gas Trading	-	0,16	0,31	-
RWE Supply	-	0,08	0,08	-
VNG Slovakia	-	0,03	0,09	0,09
Morgan Stanley	-	-	4,45	2,21
Mercuria Energy	-	-	0,35	0,92
Danske Commodities	-	-	-	0,18
Total	**100,00**	**100,00**	**100,00**	**100,00**

In 2012 POZAGAS received 60 application forms for access to storage tanks as a result of the bidding for storage capacity through tenders. 49 of them were turned down as the free storage capacity had already been allocated to the winners of tenders. In 2012 the company made no records on trading on the secondary market. The availability of storage capacity in underground storage tanks is published on the official web site of the operators of underground gas storage tanks along with the sample of application form for capacity reservation.

The utilisation of storage capacity operated by POZAGAS, a.s. company according to the individual users

Storage tank users	2009 %	2010 %	2011 %	2012 %
SPP a.s.	45,60	48,56	16,19	3,67
GdF Suez	30,00	25,55	58,72	56,46
OMV Gas GmbH	24,40	25,89	25,02	17,63
MET AG	-	-	0,07	1,10
MET Slovakia	-	-	-	0,60
ČEZ Slovensko	-	-	-	1,00
ZSE energia	-	-	-	1,00
Morgan Stanley	-	-	-	14,87
RWE Supply	-	-	-	3,67
Total	**100,00**	**100,00**	**100,00**	**100,00**

NAFTA and POZAGAS published their scheduled investments into storage capacity, utilisation of storage capacity of gas storage tanks, data on extraction and injection of natural gas on a daily basis, plus the forms of all documents related to natural gas storage in gas storage tanks.

In order to ensure the safety gas supply standards and balancing of the distribution system operated by SPP – distribúcia utilised the storage tank on the territory of the Czech Republic, in Dolné Bojanovice. Technology of underground storage tanks enables to operate the storage tanks in the regime of parallel injection and production of natural gas. Injection and production of natural gas is made from and to the gas supply pipeline by which the underground storage tank Dolné Bojanovice is connected to the international measuring station Brodské. At the measuring station Brodské the gas supply pipeline is connected to the Slovak gas supply pipeline.

Natural gas production

Domestic production of natural gas in 2012 reached the level of 98 mil m^3. As regards the production of natural gas from the existing domestic internal sources a slight decrease in gas production is further expected and this will be partly eliminated by a connection to newly explored sources of a smaller scale.

Cross-border issues

In 2012 the Office worked on the cross-border matters with relevant regulatory authorities and the Agency for Co-operation of Energy Regulators (hereinafter only „ACER") in line with the relevant provisions of the Ordinance No. 2009/EC/715 in the region of Central and Eastern Europe (hereinafter only „the CCE region").

When applying the procedures concerning the cross-border capacity allocation and congestion management on cross-border profiles the Slovak operator of the transmission system (Eustream) observes the Gas Market Rules and the Operational Order of the Transmission System approved by the Office. The interconnection of transmission systems has already been established with the Ukraine, the Czech Republic and Austria. The capacity of cross-border connectors of the gas transmission system of the Slovak Republic is sufficient. On its official website Eustream publishes the regular information on availability of transmis-

sion capacity of individual entry-exit points of the transmission system, the information on planned investments to be made into the transmission system, utilisation of the network, a plan of the transmission network maintenance, free transportation capacities at all entry and exit points of the transmission system. The procedures concerning the capacity allocation, contractual congestion and exceeding the capacity in the transmission system are included into the provisions of the gas market rules.

A significant proportion of the contractual portfolio is made through the short-term cross-border transactions among the points of trading in Central Europe. Trading with transmission capacity in the secondary market was made via the bulletin board on the official website of Eustream where users of the transmission network publish their requirements concerning capacities.

The project at the interconnection point of Arnoldstein/ /Tarvisio between Austria and Italy was chosen to become the pilot project dealing with the allocation of capacities co-ordinated within the CCE region. National regulatory authorities of the CCE region drafted the common regulations on the mechanism of the daily allocation of capacity for gas transmission from Baumgarten to Arnoldstein/ /Tarvisio system, with the planned startup of utilisation of daily auctions of bound products on the basis of specification of European Operational Order on the Capacity Allocation Mechanism („CAM NC") starting from April 1, 2013 that were commented during the public consultations.

Another pilot project of the region dealing with the capacity allocation is the GATRAC platform to which Eustream was connected in September 2012. Eustream and the Czech gas transmission system NET4GAS work together on the implementation of daily products that were analogical with interruptible products already offered by Italian, German and Austrian gas transmission systems.

Based on the Memorandum of Understanding signed on October 31, 2012 by energy ministers of Visegrad Group countries those countries committed themselves to a more intensive co-operation in meeting the objectives concerning the completion of the single market with natural gas until the year 2014. The main common target was to outline the vision for the target gas model of the Visegrad Group region, defining key elements of the long-term strategy and institutional organisation of the whole process, based on the analysis of the current state of liquidity of the gas market in the Vysegrad Group region and its further monitoring and subsequent project implementation. In the EU gas regional investment projects (GRIP) the CCE projects are part of the North South and South Corridor. The preparation of scheduled Slovak-Hungarian connection of the gas supply transmission networks is underway. The planned two-way gas supply line with the annual capacity of 5 bil. m^3 and with the length of approximately 115 km (of which almost 20 km in the Slovak market) will link the Slovak high-pressure gas supply pipeline near the village of Veľké Zlievce with the Hungarian transmission network in the village of Vecsés at the outskirts of Budapest.

The project should make contribution to the European energy security and diversification of transmission routes. A sufficient cross-border capacity will improve the liquidity of the market with natural gas and will increase the security of natural gas supplies to the Central European Region. The project is co-financed through the European Energy Programme for Recovery (EEPR).

The Slovak-Hungarian interconnection is strategically important for Slovakia as it enables the access of the country to LNG terminal in Croatia or to the Southern gas supply pipelines Nabucco and South Stream that plan to be constructed and connected to the gas supply pipeline in Hungary. Launching the operation of a new gas supply pipeline is scheduled for January 1, 2015.

The project of Polish–Slovak interconnection of the gas supply pipeline that connects transit systems in Poland and Slovakia is also of high importance for the country. The purpose of such interconnection is to diversify the routes of gas supply pipelines, running across Visegrad group countries plus Croatia, and connect two LNG terminals in Poland and Croatia. For the purpose of this project a working group including Visegrad group countries and Croatia was also established. The Slovak–Polish gas supply connection is presently in the phase of development of the feasibility study.

Transmission capacity

Eustream company, in comparison with other European transmission networks that are largely in use, may provide thanks to its free transportation capacity sufficient transportation capacities in the existing network, which gives an advantage for potential entities interested in gas trading and potential for the development of competition in the Slovak gas market. The development in the market with transmission capacities from 2008 to 2012 is shown in the chart below.

The development in the market with transmission capacities from 2008 to 2012

Indicator/Year	2008	2009	2010	2011	2012
No. of applications for access to the transmission network	30	54	72	56	154
No. of applications for connection to the transmission network	1	1	0	0	0
No. of concluded contracts on connection to the transmission network	1	0	0	0	0
No. of concluded contracts on transmission of natural gas with fixed transmission capacity	28	54	72	52	154
Of which: long-term	7	5	2	1	1
annual	9	23	42	35	49
short-term	12	26	28	16	104
No. of concluded contracts on transmission of natural gas with interruptible transmission capacity	1	0	0	0	1
Of which: long-term	1	0	0	0	0
annual	0	0	0	0	0
short-term	0	0	0	0	1
No. of users of transmission network	12	20	23	30	36

In 2012 the users of the transmission system were both Slovak and foreign companies, for instance from Russia, the Czech Republic, Germany, Italy, Slovenia, the Netherlands, Switzerland, Great Britain, Denmark, Austria and France.

The following chart shows a proportion of domestic users and foreign users of the transmission network in the total amount of gas transmission. The total volume of gas transported in 2012 reached 56.5 bil. m^3.

The proportion of domestic users and foreign users of the transmission network in the total amount of gas transmission

Indicator/Year	2009 (%)	2010 (%)	2011 (%)	2012 (%)
Foreign users of the transmission network	93	92	92	90
Domestic users of the transmission network	7	8	8	10
Total	**100**	**100**	**100**	**100**

A share of transmission system users

Users of the transmission system in the domestic market (transmission to the local point of the transmission network)	**Share**
Slovakia	7,11%
Czech Republic	2,24%
Others	0,39%
Transit users of the transmission network	
Russia	63,17%
Germany	9,49%
Czech Republic	12,89%
Italy	0,22%
Netherlands	1,49%
Slovenia	0,86%
Switzerland	0,19%
UK	0,04%
Austria	0,11%
France	0,01%
Slovakia	1,79%
Total	**100,00%**

Access to cross-border infrastructure

Cross-border trading with natural gas was undertaken in accordance with the TSO agreement of CCE region within GRI on the trading node CEHG in Baumgarten (Austria) where trading activities on the short-term day ahead market take place.

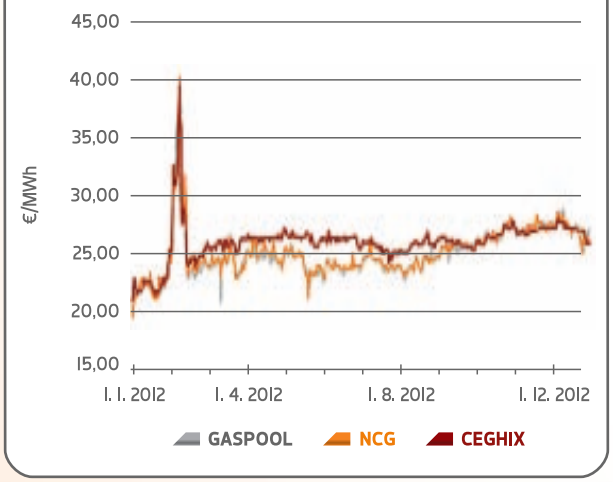
Connection capacity allocation and management as part of cross-border gas exchanges and congestion management mechanism on the profiles of Slovakia with other neighbouring EU member states was in 2012 tightly connected with the development of Regional Initiative for Southern and Eastern Europe (GRI CCE) of which Slovakia is a member, together with other 9 states.

II.3. Wholesale market

Compared to 2011, the number of gas suppliers doubled. Such result may be attributed to excess gas supply over demand which means that in terms of prices gas is available for gas traders selling gas purchased only based on the long-term contracts, but also in some of the power exchanges in Europe. Gas trading in the gas node at Baumgartene in Austria that is the nearest trading point behind the borders of the Slovak Republic, is growing dynamically. Another source of gas supplies is the purchase of natural gas of „ a smaller supplier from a larger supplier" which is the way how a larger supplier sorts out excess gas, for example when the number of consumers is decreasing due to the gas supplier switching. Also, trading with storage capacity is performed in the secondary market.

The development of natural gas prices in the wholesale market in 2012 in European power exchanges is shown in the following chart.

The spot gas price in the European Power Exchanges (2012)



II.4. Retail market

Price regulation governing gas supplies in 2012 was imposed on:

a) Household gas supply,
b) Gas supply for the purpose of heat production for the needs of household,
c) Gas supply by the last resort supplier.

The Decree No. 216/2011 Coll. determined for regulated activity of gas supply in a new regulatory period the procedure concerning the calculation of maximum prices based on the price cap method. This method determined a price level for the regulatory period, based on the first year of the regulatory period, for which maximum initial price for household gas supply is determined. Price regulation imposed on gas supplies by the last resort supplier is performed by setting the maximum price of gas supply provided by the last resort supplier.

a) Household gas supply

For SPP company and other gas suppliers actively functioning in the Slovak Republic the Office determined maximum prices for gas supplies to households in 2012 along with the conditions of their enforcement. Maximum prices for gas supplies to households are two-component prices composed of the maximum size of the fixed monthly rate and maximum size of the rate for extracted gas. A tariff structure is divided into three groups D1 to D3 according to the amount of gas demand.

Following the assumptions on the development of prices of crude oil and oil products in 2013 and the anticipated development of the exchange rate of EURO against US Dollar the average price of gas supply to households in 2013 increased by 0.46% on average, in comparison with the previous year.

For the so-called "other gas suppliers" the Office approved the same maximum prices for household gas supply as for SPP company in accordance with existing legislation. Following the business policy such suppliers offer their consumers lower prices for gas supply than those

approved by the Office as maximum prices. These prices are published on their official web sites and by means of price calculator household gas consumers may compare their prices for gas supply to individual gas suppliers on the official web site, as well.

The starting point for approval or determination of the price for gas supply to households in 2012 was the use of adjusted price cap method, when the regulation of prices for household gas supply in the regulatory period 2012–2016 was based on the so-called "initial costs" method determined for the year 2012. The price setting for the year 2012 will be optimised by factor (JPI-X) for further years.

Gas suppliers that supply gas to fewer than 500,000 households may use maximum prices including the conditions of their application under the price decision issued for SPP, a.s.

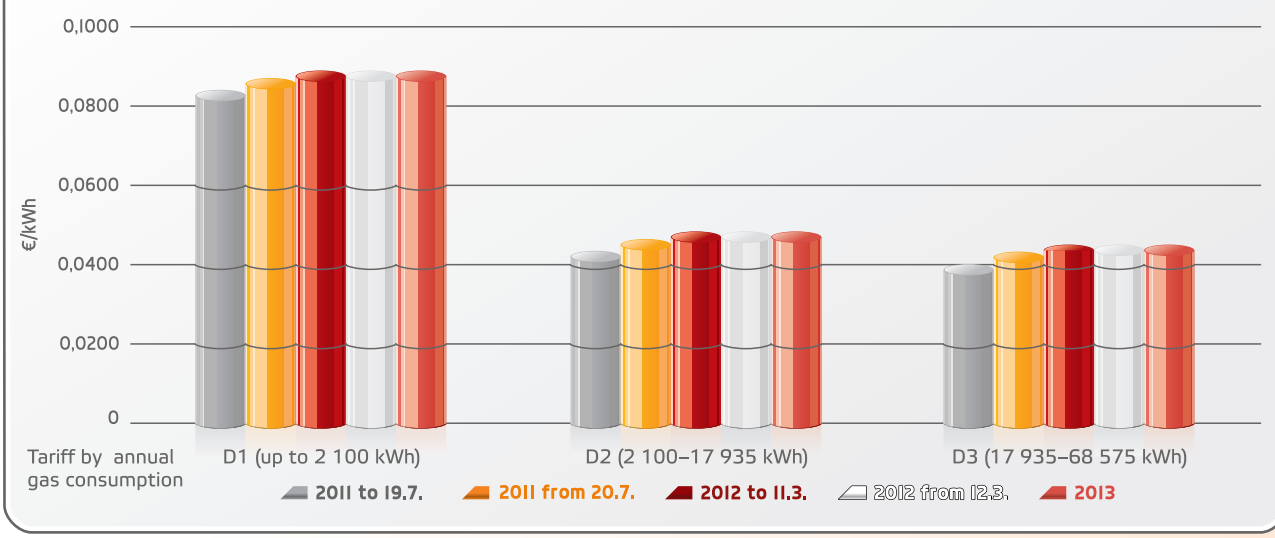
Maximum prices for gas supply to households in 2011 to 2013 (w/o VAT)

Tariff	Fixed monthly rate (€/month)					Rate for gas extraction (€/kWh)				
	2011 to 19.7.	2011 from 20.7.	2012 to 11.3.	2012 from 12.3.	2013	2011 to 19.7.	2011 from 20.7.	2012 to 11.3.	2012 from 12.3.	2013
D1	1,76	1,76	1,76	1,76	1,76	0,0509	0,0537	0,0561	0,0537	0,0539
D2	4,15	4,15	4,15	4,15	4,15	0,0372	0,0400	0,0424	0,0400	0,0402
D3	6,46	6,46	6,46	6,46	6,46	0,0356	0,0384	0,0408	0,0384	0,0386

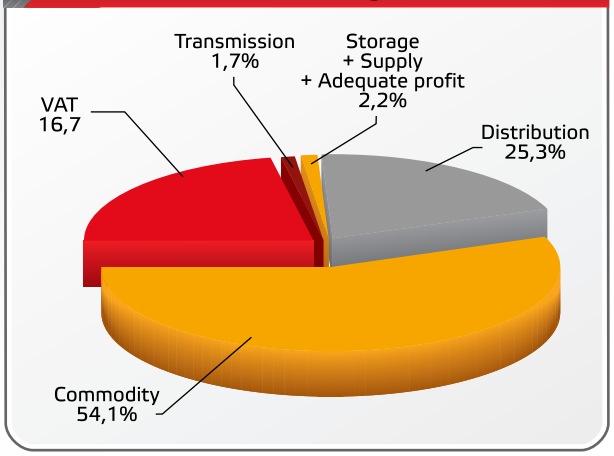
The development of average final prices for gas supply to households in 2011 to 2013 (w/o VAT)

Tariff (under annual amount of gas supplied in kWh)	2010 (€/kWh)	2011 to 19.7. (€/kWh)	2011 from 20.7. (€/kWh)	2012 (€/kWh)	2013 (€/kWh)
D1 (up to 2 100)	0,0829	0,0857	0,0881	0,0857	0,0859
D2 (over 2 100 up to 17 935)	0,0413	0,0441	0,0465	0,0441	0,0443
D3 (over 17 935 up to 68 575)	0,0384	0,0412	0,0436	0,0412	0,0414

The development of average final prices for gas supply to households in 2011 to 2013 (w/o VAT)



The structure of the average price for gas supply to households in 2012 including VAT



b) Gas supply for the purpose of heat production for households

In order to protect the most vulnerable group of consumers of thermal energy in households in 2012 the Office also enforced price regulation on gas suppliers delivering gas for the purpose of heat production for household.

The Office determined for all regulated heat producers supplying heat to households the scope of eligible costs through 19 price decisions for 2012 that may be included into the prices including the determination of the size of adequate profit earned from gas supply.

On the basis of provisions of a new Act on Regulation coming into effect on September 1, 2012 starting from 2013 the Office will no longer perform price regulation for gas suppliers delivering gas for the purpose of heat production for households.

c) Gas supply by the last resort supplier

The last resort supplier is obliged to supply natural gas to gas consumers that are connected to the network and whose supplier lost the competence to supply natural gas or the process of switching the gas supplier is ceased for some reason which means gas supplies are interrupted for some reason and there is no other alternative way of supplying gas.

The last resort supplier is obliged to supply gas to gas consumers no longer than for a period of three months. The last resort supplier shall notify the Office on this matter. Last resort supply may be terminated earlier provided that the gas consumer concludes the gas supply contract or the contract on combined gas supply with a new gas supplier that may also be the last resort supplier.

With an intention to protect the gas consumers that did not lose their gas supplier due to their own fault the Office carries out price regulation of gas supply by the last resort supplier. Price regulation of gas supply by last resort supplier is made by setting the maximum price for gas supply by the last resort supplier.

The Office issued for the last resort supplier on the restricted territory of the Slovak Republic, i.e. for the SPP company, price decision for 2012 by means of which it determined maximum prices for gas supply by the last resort supplier, in the scope of eligible cost that may be covered by the prices including the size of an adequate profit, for both household gas consumers and off-household gas consumers.

Monitoring transparency, including the compliance with the obligations concerning transparency and the level and effectiveness of the opening and competition in the market

For the purpose of evaluating the status of market liberalisation there is the switching coefficient used to express the number of off-take points which switched their gas suppliers to the overall number of off-take point in a given year.

A substantial increase in the number of switching points was also in the category of household gas consumers where this indicator achieved the record-breaking growth up to 11.56 %. In 2012 household gas consumers switched mainly from traditional supplier to competitive gas supplier.

The following chart shows the gas supplier switching in individual off-take points in a period starting from 2010 to 2012. The data given in the chart do not take into account the switching at the off-take points in local distribution systems.

The switching of the gas supplier

Type of offtake point	No. of offtake points with gas supplier switching			Switching (%)		
	2010	2011	2012	2010	2011	2012
Wholesale consumer	84	99	144	10,12	12,42	17,08
Medium-scale consumer	84	267	383	2,67	9,04	12,81
Retail consumer	2 950	5 270	5 415	4,10	6,44	7,37
Household	0	21 376	131 385	0,00	1,51	9,25
Total	**3 118**	**27 012**	**137 327**	**0,21**	**1,80**	**9,17**

In accordance with the Act on Regulation the Office makes the Rules for the Functioning of the Internal Electricity Market and the Rules for the Functioning of the Internal Gas Market laying down the conditions for the functioning of the liberalised gas market in the Slovak Republic in accordance with the 3rd Energy Package.

An important paper for the participants of the gas market, promoting transparency and efficiency of the gas market are the Operational Orders of the network operators, including storage tanks, as approved by the Office. Based on the applications for the operators of networks and storage tanks in 2012 the Office made evaluations and granted approvals to six operational orders.

Based on the new competences arising out of the Act on Regulation in 2012 the Office also approved the business conditions governing gas suppliers providing universal service. The business conditions form an inseparable part of the electricity supply agreements and define rights and obligations of the gas supplier and the gas consumer, accordingly. In the period from September 1, 2012 until the end of 2012 the Office approved 14 decisions related to business conditions governing the gas industry.

An overview of decisions issued in the gas industry in 2012

I. Decisions related to price regulations in 2012	**28**
Of which:	
Gas supply for heat production in households in 2012	6
Gas supply for households in 2012	11
Access to the distribution network and gas distribution in 2012	8
Connection to the distribution network in 2012	1
Connection to the transmission network in 2012	2
Access to the storage tank and gas storage – alteration in decision	1
II. Decisions on price regulation in 2013	**78**
Of which:	
Access to the transmission network and gas transmission in 2013	1
Gas supply to households for 2013	13
Gas supply to small-scale companies in 2013	25
Gas supply by the last resort supplier in 2013	1
Access to the distribution network and gas distribution in 2013	35
Connection to the distribution network in 2013	1
Connection to the transmission network in 2012	0
Access to the storage tank and gas storage	2
III. Decisions on approval of operational orders of network operators	**7**
Of which:	
Operational Order of the gas transmission system, eustream	1
Operational Orders of local distribution network operators	6
IV. Decisions on approval of business conditions	**14**

Apart from this activity the Gas Regulation Division also resolved 37 initiatives, complaints and application forms received from both consumers and regulated companies.

Anticipated demand and supply available in the future as well as other assumed capacities

Natural gas consumption in the Slovak Republic is on decline. In order to increase gas demand on the side of final gas consumers it will be necessary to revive the economic growth in European countries, reduce gas purchase prices (illogical link between the gas price and development of prices of crude oil products in commodity markets) and also more intensive production of electricity in generation plants using natural gas as fuel, where because of low prices in the power exchange electricity generation from such plants is not efficient.

As a result of technical measures taken in the transmission system the reverse gas flow was put into operation in West-East direction, which will bring the improvement of diversification of gas supply routes as well as the gas based generation plants and also the security of gas supplies. With regard to the construction of new transmission routes across Europe the utilisation of the transmission system operated by eustream is on decline, therefore there is free capacity growing in entry and exit points of the transmission system. As regards the construction of new cross-border capacities the construction of new cross-border capacities at the time of the construction of North–South Corridor (PL–SK, SK–HU) is underway.



III. The Thermal Energy Industry

Heat Supply Market

In terms of district heating systems supplying heat to inhabitants and the tertiary sector Slovakia ranks among the prominent leaders in Europe. Apart from the positive impact on the environment on-site by cutting down the harmful substances the district heating system is the basic assumption for the development of combined electricity and heat production and the use of renewable energy sources while providing the heat comfort for inhabitants and covering demand of other consumers at the same time.

According to the Act No. 657/2004 Coll. on the Thermal Energy Industry heat supply service is provided by approximately 350 heat supply licensees. Their number has been stabilised for a long time even though changes occur rather frequently, mainly in the trade names of the businesses or merging daughter companies in order to optimise the costs of energy utilities. On the other hand, in 2012, owing to the Act on Promotion of Renewable Energy Sources and Highly Efficient Combined Production new heat suppliers emerged that have to sell the heat produced in CHP in the heat market. The number of entities using CHP exceeded the number 40, which means about 12 % of suppliers. Installed electric output for CHP achieves more than 1,200 MW. Heat supply from central heat sources is provided in all major towns of Slovakia having the well-developed housing infrastructure that was constructed in the course of the past century. Due to the restrictions imposed on the mass construction of flats the development of heat distribution system in this century was stopped so individual buildings are connected to the existing pipelines only occasionally.

Annual heat supply achieves around 15,746 MWh and demonstrates the long-term declining trend. This fact is not caused by the disconnection of consumers from central heat sources but primarily due to the reduction of heat consumption in the residential area supported by the state funded heat insulation scheme or due to removal of any deficiencies in the mass housing construction. Such reduction in heat supply in the residential houses is in absolute numbers a decline from the value of 6,326 GWh in 2010 to 6,105 GWh in 2012, which is roughly 3.5% of heat consumption on a yearly basis. For a long period of time heat supply for residential buildings, i.e. households, is at a level of 40 % of the total heat supply. Considering the expertise of the heat market participants it may be pointed out that the number of cases when heat supply was terminated due to the construction of an independent plant in the previous century has been stabilised thanks to the legislative measures taken to prevent any disconnection from the district heating system as set forth in the Amendment of the Act No. 657/2004 Coll. on the Thermal Energy Industry. The heat supply to non-residential premises and for the needs of technological processes bring the long-term stable demand which means the extension of the district heating systems. This is also linked with the legislative measures taken to promote electricity generated from renewable energy sources that is bound to usable heat.

An increase in prices for natural gas supplied from the dominant supplier was extremely sharp primarily in the second half of 2011, but the changes in the contractual conditions with a gas supplier from the Russian Federation in the course of 2012 resulted in lower base rates for natural gas prices. This price certainly went down also due to the decline in natural gas price in the world markets (reduction by about 15 %), when during the entire year 2012 demand for natural gas was on decline which was caused by the stagnation of the economic development in Europe. A reduction in gas prices is also to a certain extent attributed to deregulation of prices for heat producers and competition of gas suppliers.

Price regulation method

Price regulation in network industries, including production, distribution and supply of heat, intends to eliminate the efforts to abuse the dominant position in the market. Since 2011 throughout the regulatory period a new generally binding legal regulation has been in effect, which is the Decree of the Office No. 219/2011 Coll., by which price regulation in the thermal energy industry is determined (hereinafter only „ the Decree“).

In all the areas of the energy sector, including the thermal energy industry, the payback period of the investment made is long and the preparation of investment is financially and administratively demanding. For this reason the

scope of eligible costs remained almost unchanged, but some rules governing prices and changes also influenced the allocation of costs in combined heat and power production. In 2012 a small Amendment to the Decree (the Decree No. 170/2012 Coll. of June 15, 2012), which based on the practical experience responded to the abuse of the calculation of regulatory input and specified the calculation of costs for combined heat and power production in more detail. At the same time, by amendment of legislation eligible costs incurred from greenhouse gases emission trading were modified. A variable component of the heat price was determined in €/kWh for a long time on the basis of the ordered amount of heat, however unlike in the past only one maximum price of a variable component is determined which is caused by deregulation of gas prices for consumers with consumption exceeding 100,000 kWh for the previous year. A fixed component of the heat price is determined on the basis of the Decree on Regulatory Input and is determined in €/kW of regulatory input. When applying a fixed component of the heat price a substantial change may be regarded the change in the calculation of regulatory input that is calculated in a standard manner from the heat supply in the previous year in which heat consumption of the consumer was measured, whereas in the calculation of regulatory input uniformity of demand or the use of extracted heat are taken into account. From this point of view consumers who consume the entire heat from the central heat source and have the balanced demand throughout the year, are put into a disadvantageous position.

The growth of fixed costs during the regulatory period is subject to regulation, except for the cases when investments are made into more efficient production and distribution of heat, improvement of environmental performance and scheduled overhauls. To ensure the support of the development of non-fossil fuels there was still a possibility of using a higher profit in the heat price for consumers that provide heat supply with at least a 20 % proportion of renewable energy sources in case the heat price from such energy sources does not exceed the limit prices of variable and fixed components of the heat price.

Consumption of fuels for heat production

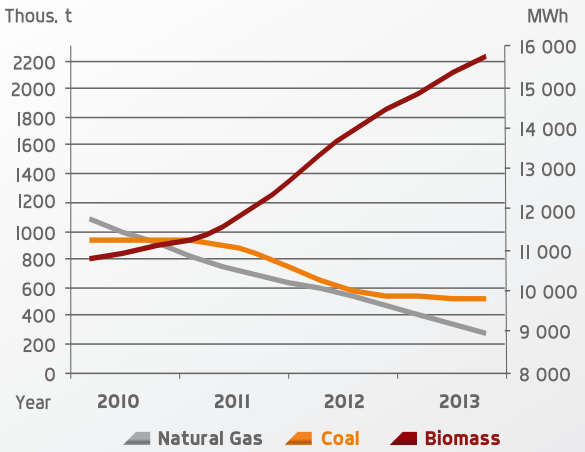
In 2013 heat delivery subject to price regulation is assumed to be at the level of about 15,740 GWh. Of this 6,270 GWh of heat is supplied to flats to provide space heating and the preparation of hot domestic water while the remaining 9,476 GWh of heat is supplied to other off-household consumers. The most commonly used fuel for the purpose of heat production is natural gas that accounts for 51 %, then biomass (35 %) and finally coal (13 %). It is obvious from the data on fuel consumption that since 2010 the consumption of biomass used for the purpose of heat production has increased multiple times. Following the Act on Promotion of Electricity Generated from Renewable Energy Sources the synergic effect also happened in heat production. The development of domestic fuel consumption was naturally influenced by the rise of prices of crude oil products and an unfavourable exchange rate of EURO to US Dollar. However, it has to be pointed out that in many cases the biomass price increase simply copied the price increase of fossil fuels, which might have been caused by the business strategy of bio fuel traders, as well as by the limited possibilities of increasing the production of appropriate wood mass. In the future the limited production of wood chips may lead to disintegration of central heating.

The following charts and graphs illustrate the development of heat supply and consumption of individual types of fuels used for the purpose of heat production in the market since 2010.

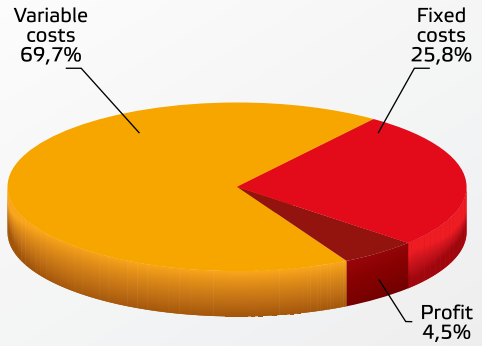
The consumption of fuels for heat production

Year	Natural gas supply [Mwh]	Coal [t]	Oil [t]	Biomass [t]	Heat [Gwh]
2010	11 738 581	921 162	4 565	798 796	15 600
2011	10 596 642	893 732	3 848	1 027 963	15 540
2012	9 867 974	580 570	3 735	1 704 942	15 400
2013	8 981 307	512 823	5 905	2 234 740	15 740

The development of fuel consumption

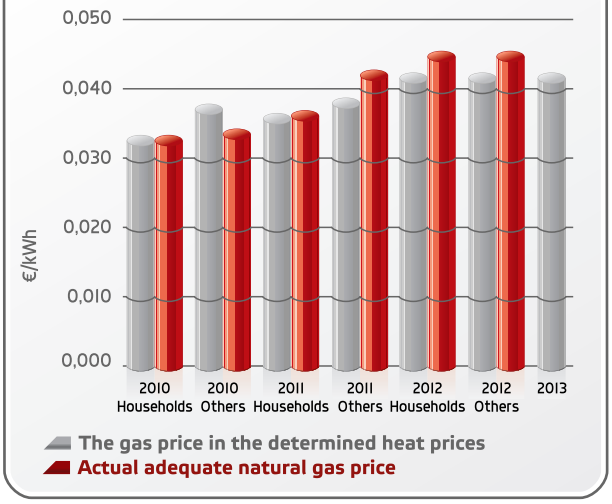


The structure of costs in price of heat produced from natural gas



The price of heat produced from natural gas had been calculated until 2012 either with the assumed price of natural gas dependant on the development of prices of crude oil and crude oil products in the world markets and on the exchange rate €/USD supplied to the off-household consumers under the contractually agreed formula of the dominant gas supplier or with the price of gas determined for household consumers. In 2012 the method of price regulation of natural gas used for the purpose of heat production for households substantially changed and the Office determined only the scope of eligible costs, which in many cases practically meant for heat suppliers one price for natural gas for all consumers. The following table presents the assumed and actual average market prices of natural gas for the purpose of heat production for such consumers and the price of natural gas for production of heat for households, whereas from 2012 it was partly deregulated and since 2013 the price of gas for heat production for households has not been regulated at all. Gas prices are presented for the consumer of natural gas with annual demand of 4,226 MWh. The assumed price of natural gas approved in the heat prices which is the subject of the conversion to actual prices after the completion of the regulatory year.

The gas price in the determined heat prices



What strikes first in the graph is a lower price of natural gas in the set heat prices, compared to the actual price of natural gas. Just for the purpose of explanation it needs to be said that the gas price in the set prices was determined for the lowest extraction of natural gas in a given tariff. However, in reality the average off-take of natural gas consumers exceeded 10,000 MWh. Since 2012 there

has been „a shift", not only due to the competitive environment, from the contractual „formula" based gas prices to annual fixed prices of natural gas not only for alternative suppliers, but also for the dominant natural gas supplier. For this reason, the final natural gas price was lower than the prices calculated from fuel oil prices.

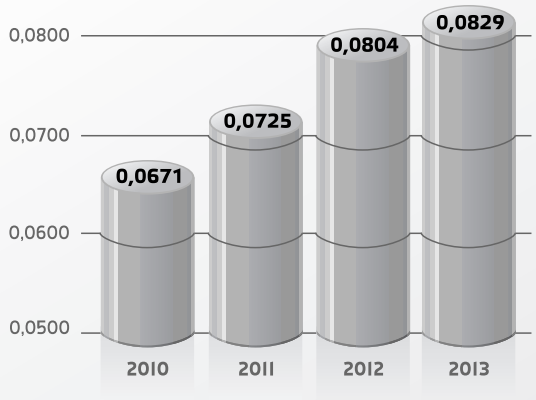
III.1. Price level monitoring

In the course of 2012 the Office issued inter alia 67 price decisions for newly established companies and the companies that initiated their business activities in new locations. In the course of the year several companies made their assumed costs for heat production more realistic which was acknowledged by the Office and subsequently resulted in the changes in the decisions issued.

The heat price based on the Office decisions (in €/kWh)

	2010	2011	2012	2013
Variable component of max. heat price for households	0,0433	0,0470	0,0519	0,0513
Variable component of maximum heat price for other consumers	0,0491	0,0501	0,0519	0,0513
Fixed component of maximum heat price	126,05	135,26	153,33	167,31

The heat price based on the Office decisions (in €/kWh)



The average variable component of the heat price determined for households for 2012, compared to the previous year, increased by 10%, mainly due to the increase in prices of natural gas that is the most commonly used fuel for the purpose of heat production. The annual 10 % increase in a variable component of the heat price for these consumers was also caused by the fact that the price of gas for heat production for households in 2012 was not regulated in detail but its assumed size included into the price of heat was balanced with the market price of natural gas. For this reason, since 2012 there have been no differences in heat prices for households and other consumers. In some cases, however, heat suppliers applied a lower price of natural gas used for the purpose of heat production for households than for other consumers, but this minimum difference in actual costs for fuel was manifested in the heat price only after the end of the year when settling the actual costs.

The average variable component of the heat price for other off-household consumers increased by 3.4% in 2012 since the fuel cost in heat prices for such consumers permanently copied the development of the market prices.

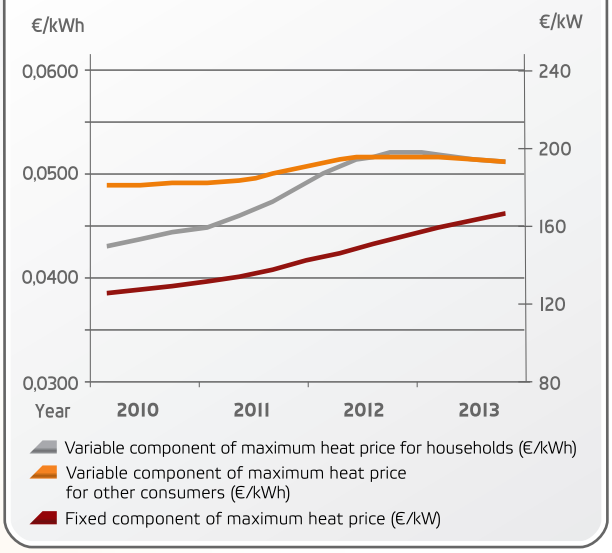
A fixed component of the heat price determined for 2012 was higher by 13.3% than in 2011. Such increase was caused by the fact that after the end of the regulatory period starting from 2009 to 2011 when fixed costs were stabilised, in 2012 being the first year of a new regulatory period it became possible to include technology-related investment costs into the heat price, particularly when new heating facilities were constructed using renewable energy sources or heat supply pipelines were upgraded. Moreover, it also referred to the construction of in-house exchanger stations as well as an increase in other fixed costs as a result of inflation. The final increase in the heat price caused by the increase in both components accounts for 10.9 %.

Compared to the development in previous years the development of heat prices set for 2013 is more favourable. A variable component of the price went down by 1.2 %. A reason of such decline was the reduction of gas purchase price for the largest natural gas supplier in Slovakia, Slovenský plynárenský priemysel, a.s. Bratislava (SPP) charged by Gazprom Export LLC company. A new form

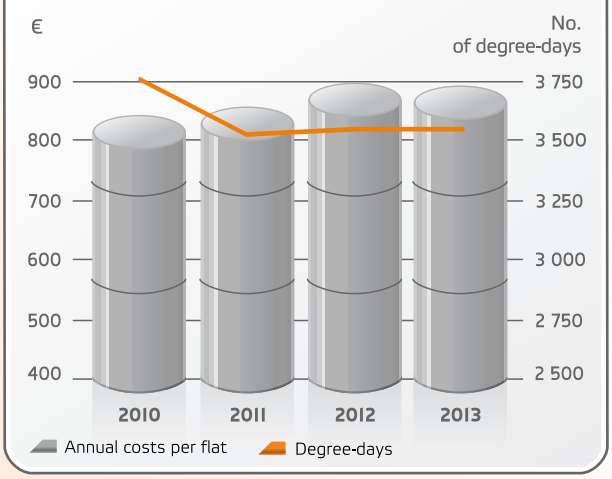
of the contractual relationship between these companies revised the gas purchase price in order to reflect in a larger extent the current trends with gas market prices throughout the world.

Considering the development of heat prices depending on the fuel the largest increase in the price is obviously from the heat produced from natural gas.

Development of the maximum heat price



Annual costs per flat in €



The heat prices by fuel

Fuel	2011		2012		2013	
	var. c. [€/kWh]	fix. c. [€/kWh]	var. c. [€/kWh]	fix. c. [€/kWh]	var. c. [€/kWh]	fix. c. [€/kWh]
Mix. with min. 20% share in biomass	0,0424	154,03	0,0429	153,70	0,0449	169,44
Natural gas	0,0526	119,26	0,0592	141,42	0,0578	150,13
Coal	0,0375	111,67	0,0379	126,68	0,0401	141,14



IV. The Water Service Industry

IV.1. Production, distribution and supply of potable water through the public water supply system and discharge and treatment of waste water through the public sewage system

The efficient functioning of the water market was provided by the Office by means of price regulation. By applying unambiguous methods and principles of price regulation given by the Act on Regulation, or determined by the regulatory policy as well as by applying the uniform procedures of price regulation in all regulated companies functioning on the territory of the Slovak Republic it was possible to achieve transparent, non-discriminatory and effective competition. At present regulated companies have the conditions suitable for providing failure-free supply of potable water through the public water supply pipeline in the required quality, as well as for providing uninterrupted discharge and treatment of waste water through the public sewage system at the required level of quality.

The main priority in price regulation in this field was the implementation of the procedures and methods that lead to price stabilisation, thereby providing the protection for consumers of potable water and producers of waste water against unjustified and inadequate price increase. This is also achieved thanks to the thorough inspection of justification of the costs that regulated companies used for their performance of regulated activities. To ensure the protection of consumers the Office ensured monitoring, evaluation and verification of quality standards concerning potable water supplied through the public water supply system and discharge and treatment of waste water through public sewage system and related services.

In compliance with the principles set forth by price regulation governing the water service industry that belongs to network industries, in 2012 the Office issued 369 decisions in total, of which 278 decisions for the year 2013.

An overview of decisions issued in 2011, 2012 and 2013 (the status as of December 31, 2012)

	2011	2012	2013
Price decisions	181	177	164
Water service companies	14	14	14
Other regulated companies	167	163	150
Alterations in price decisions	11	8	0
Decisions on withdrawal of regulated activities from regulation	76	94	88
Decisions on termination of proceedings	25	19	11
Decisions on suspension of proceedings	29	26	15
Decisions – total	322	324	278

Price level monitoring

Transparency in pricing in this area of business is ensured by valid legislation imposing an obligation on the Office to publish valid price decisions on its official web site, but also an obligation of a regulated company to publish approved prices on its web site or other appropriate way accessible to the public.

Price stabilisation is also essential for using the existing water facilities because the price increase forces both consumers and producers to take saving measures, thereby diminishing the utilisation of the existing capacities. A significant part (70–80%) of operating costs in the area of public water supply systems and public sewage systems is fixed which means they are not dependent on the fact whether the existing capacity is fully in use or only partly. For this reason, the reduction of consumption results in further increase in unit prices.

In the course of the year 2012 the Office received only 8 proposals for alterations in price decisions by which prices for 2012 were approved. The water service companies submitted 3 proposals, from which one of them was rejected as unjustified. Price changes approved by the Office were justified by the need to raise funding for the purpose of repairs of water supply systems in order to eliminate any water losses and the repairs due to the large number of emergency situations in public water supply systems and public sewage systems.

After the thorough revision of the reasons for increased justified costs the Office accepted the change of price only up to the level being inevitable for performance of regulated activities and clearly supported by the background documents.

In the first year of the regulatory period the maximum prices used as the baseline were determined by applying the cost-based method at the level of real eligible costs for regulated activities and with the highest rate of profit permitted for the water service companies, being 0.10 and 0.13 € and for smaller companies or municipalities only 0.05 and 0.07 € per m^3 decreased by the scope of utilisation of the water service facilities.

In order to achieve stable prices for 2013 and upcoming years of the regulatory period there is the proven price cap method in use when maximum price determined in the previous year is adjusted only by regulatory depreciation of new water service assets and depending on the actual use of design capacity of water service assets for the performance of regulated activity.

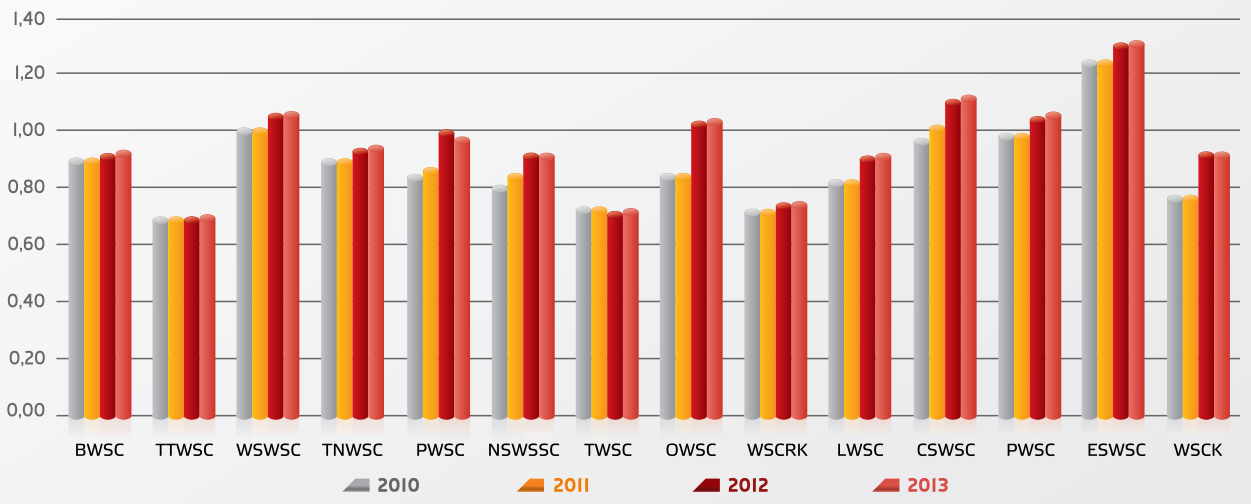
When setting the prices for 2013 the Office took into consideration, on one hand, the needs of a regulated company in order to provide high quality, uninterrupted and safe performance of regulated activity as well as investment requirements, on the other hand, it took into account social, environmental and economic implications of their enforcement against consumers of potable water, or producers of waste water in a given region.

In the first year of the regulatory period the prices for production, distribution and supply of potable water through the public water supply system, excluding VAT, increased significantly by 4.9 % on average after the settling of initial parameters, the prices for 2013 increased only by 0.9 % on average, while taking into account the price changes from 2012.

The prices range from 0.6939 €/m^3 in the Trnava Water Service Company to 1.3100 €/m^3 in the Eastern Slovak Water Service Company. Relatively large price difference is based on the different geographical and climatic conditions in the regions (availability of water sources, their quality).

The development of prices for production and supply of potable water in 2010–2013 in €/m³ (w/o WAT)

	2010 (€/m³)	2011 (€/m³)	2012 (€/m³)	2013 (€/m³)
Bratislava Water Service Company	0,8964	0,8964	0,9106	0,9235
Trnava Water Service Company	0,6879	0,6879	0,6879	0,6939
Western Slovak Water Service Company	1,0000	1,0000	1,0518	1,0581
Trenčín Water Service Company	0,8929	0,8929	0,9300	0,9409
Považská Water Service Company	0,8365	0,8616	0,9943	0,9684
Northern Slovak Water Supply and Sewage Company	0,8000	0,8400	0,9126	0,9126
Turčianska Water Service Company	0,7229	0,7229	0,7045	0,7170
Oravská Water Service Company	0,8398	0,8398	1,0246	1,0353
Water Service Company Ružomberok	0,7137	0,7137	0,7370	0,7416
Liptovská Water Service Company	0,8199	0,8199	0,9019	0,9102
Central Slovak Water Service Company	0,9639	1,0121	1,1022	1,1169
Podtatranská Water Service Company	0,9825	0,9825	1,0415	1,0577
Eastern Slovak Water Service Company	1,2415	1,2415	1,3001	1,3100
Water Service Company Komárno	0,7635	0,7635	0,9162	0,9162

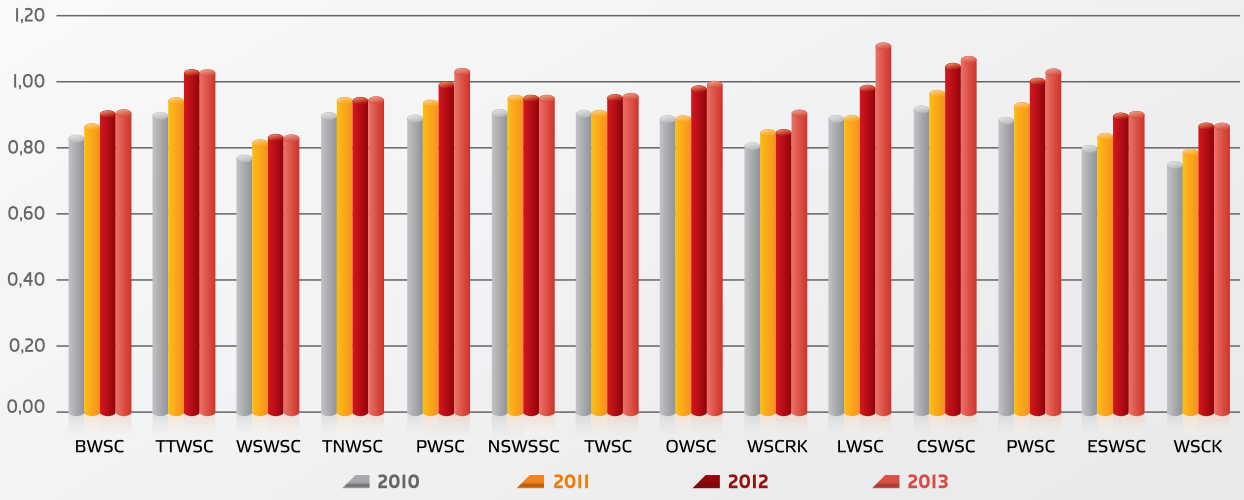


After changing the prices in 2012 the 2013 maximum prices for discharge and treatment of waste water through the public sewage system, excluding VAT, went up by 1.1 %.

Regarding discharge and treatment of waste water the individual prices were rising slightly faster, depending on the scope of investments made in a given region and ranged from 0.8286 €/m³ in the Western Slovak Water Service Company to 1.1068 €/m³ in the Central Slovak Water Service Company.

The development of prices for discharge and treatment of waste water in 2010–2013 in €/m³ (w/o VAT)

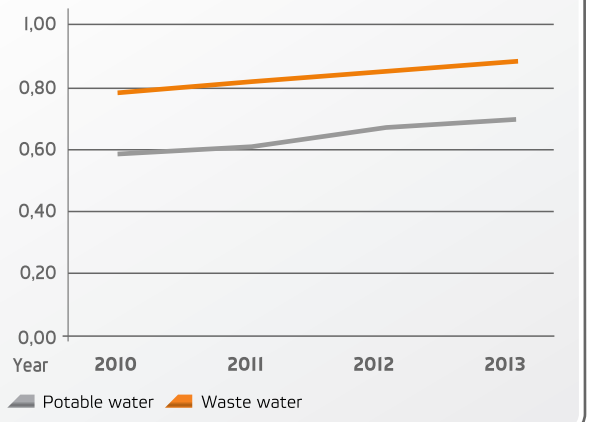
	2010 (€/m³)	2011 (€/m³)	2012 (€/m³)	2013 (€/m³)
Bratislava Water Service Company	0,8295	0,8625	0,9030	0,9051
Trnava Water Service Company	0,8973	0,9422	1,0253	1,0261
Western Slovak Water Service Company	0,7685	0,8146	0,8302	0,8286
Trenčín Water Service Company	0,8968	0,9416	0,9416	0,9435
Považská Water Service Company	0,8895	0,9340	0,9898	1,0305
Northern Slovak Water Supply and Sewage Company	0,9052	0,9500	0,9500	0,9500
Turčianska Water Service Company	0,9048	0,9048	0,9499	0,9547
Oravská Water Service Company	0,8889	0,8889	0,9778	0,9916
Water Service Company Ružomberok	0,8051	0,8454	0,8456	0,9047
Liptovská Water Service Company	0,8886	0,8886	0,9792	1,1068
Central Slovak Water Service Company	0,9167	0,9625	1,0443	1,0663
Podtatranská Water Service Company	0,8824	0,9265	1,0006	1,0287
Eastern Slovak Water Service Company	0,7967	0,8326	0,8962	0,9000
Water Service Company Komárno	0,7483	0,7857	0,8643	0,8643



The Office determined the 2013 maximum prices also for other regulated companies – municipalities that are presently slightly lower than the prices of water supply companies, but their annual growth is a bit faster which is caused mainly by the construction of new public water supply systems, or their parts, but primarily because of the construction of public water sewage systems and waste water treatment plants. The average of prices for production, distribution and supply of potable water through the public water supply systems, excluding VAT, for 204 municipalities accounts for 0.6989 €/m³, which makes an increase by 4.1 %. The average of prices for discharge and treatment of waste water through the public sewage system, excluding VAT, for 119 municipalities accounts for 0.8875 €/m³, which is an increase by 3.8 %, whereas such prices are higher than the prices for potable water supply.

The development of prices of small regulated companies in €/m³ excl. VAT

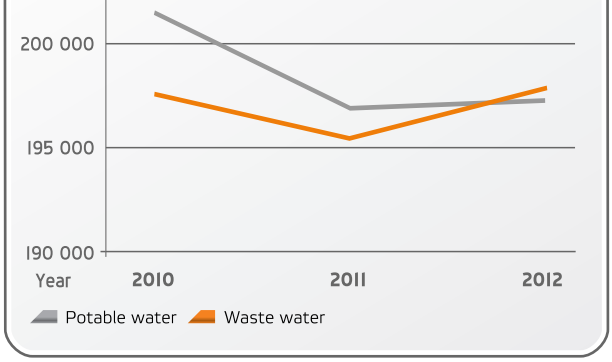
	2010	2011	2012	2013
Potable water	0,5873	06089	0,6712	0,6989
Waste water	0,7840	0,8201	0,8546	0,8875



Supply of potable water and discharge of waste water

Since 2005 the supply of potable water in water service companies has declined by 13 %, it was constantly going down by 1–2% on an annual basis. Despite building new public sewage systems the overall amount of discharged and treated waste water did not increase, but went down by less than 4%. In 2012 the decline finally halted and the amount of waste water slightly increased as well.

The development of supply of potable water and discharge of waste water in thous. m³

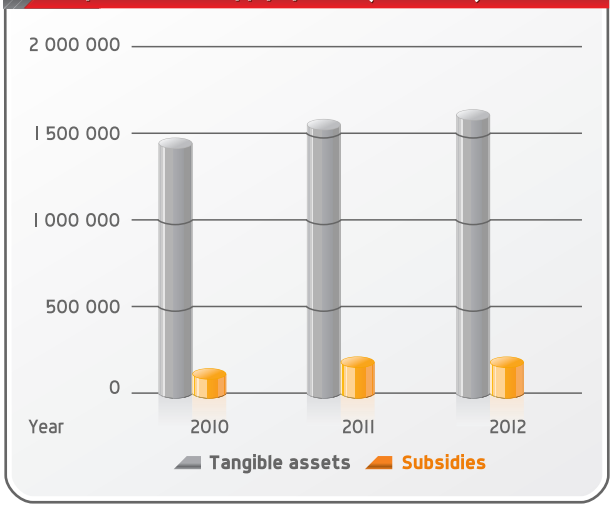


Investment

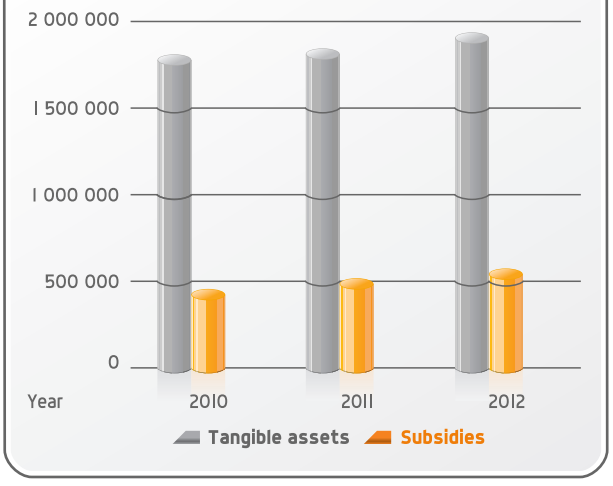
At present there are large investments that are caused on one hand by the obsolete water supply infrastructure, but on the other hand, mainly in relation to the commitments related to the treatment of waste water that the Slovak Republic committed to follow at the time of its accession into the European Union having the deadline until 2015, when all municipalities and villages with over 2,000 equivalent inhabitants will have to arrange the construction of sewage systems and the treatment of waste water.

To support such investment the Office took into account the proven need for internal investments that are essential for providing funding, mainly from the EU funds. The overall property of the water service companies in the acquisition price and of this the value of assets built from subsidies received in 2010 to 2012 are shown on the following graph.

The development of tangible assets and subsidies – public water supply systems (in thous. €)



The development of tangible assets and subsidies – public sewage systems and water treatment plants (in thous. €)



Utilisation of capacities of water service assets

Based on the background documents of total design capacity and actually used capacity of water service assets that was operated by individual water service companies in 2012 it may be noted that the average utilisation of public water supply systems represents 92 % with an increase by 2 % compared to 2010. Only three water supply systems have capacities used below average. However, up to seven water treatment plants have capacities used below average. Such lower use of capacities and its decline depends on the construction of new water treatment plants that are presently not sufficiently in use. One of the reasons is the fact that households (producers), despite the obligation by law, are not willing to connect the constructed public water supply systems in municipalities. For this reason, the Office took regulatory measures in order to force water service companies to utilise new systems and water treatment plants in the maximum possible way, provided that utilisation of capacities is below 100%, the price level is on decline, accordingly.

The Quality Standards in the Water Service Industry

Water Service Industry	Potable water service	Discharge of waste water
No. of delivered evaluations	38	36
No. of recorded events	50 779	37 056
No. of recorded events with interrupted quality standard	1 046	466
Share of events with interrupted quality standard to events recorded	2,06 %	1,26 %

The development of indicators for regulated activities performed by water service companies

Potable water	2010	2011	2012	change 2012/2011	%
Revenues from regulated activities in thous. €	186 632	187 891	197 061	9 170	5
Eligible costs in thous. €	187 247	187 855	193 709	5 854	3
Of which repairs of tangible assets	28 719	26 842	30 457	3 615	13
Tangible assets in thous. €	1 460 161	1 564 774	1 624 715	59 942	4
From subsidies in thous. €	119 179	178 613	188 929	10 316	6
Amount of water in thous. m^3	201 470	196 929	197 336	406	0,2
Utilisation of capacities of tangible assets	90%	92%	92%	0	0

Waste water	2010	2011	2012	change 2012/2011	%
Revenues from regulated activities in thous. €	164 199	170 795	178 648	7 853	5
Eligible costs in thous. €	165 177	164 463	167 643	3 180	2
Of which repairs of tangible assets	14 613	14 438	16 507	2 069	14
Tangible assets in thous. €	1 775 173	1 809 377	1 901 922	92 545	5
From subsidies in thous. €	420 625	480 616	535 348	54 733	11
Amount of water in thous. m^3	197 693	195 544	198 007	2 463	1,3
Utilisation of capacities of tangible assets	80%	76%	76%	0	0

IV.2. Provision of water services

The provision of water services under valid legislation is subject to price regulation governing extraction of surface water and water used for energy purposes from water sources and utilisation of hydro power potential of water sources.

The primary objective in this area is to optimise the prices of water services based on the development of inevitable eligible costs for providing regulated activities and the development of the amount of mechanical energy supplied and water extracted from waters sources.

The dominant regulated company with monopoly position performing regulated activities in this area is Slovenský vodohospodársky podnik, š.p., Banská Štiavnica. (a state-owned Slovak Water Enterprise).

Even during this regulatory period the cost-based method is in use. Taking into account actual eligible costs and adequate profit rate determined up to the maximum size of 5 % of eligible costs.

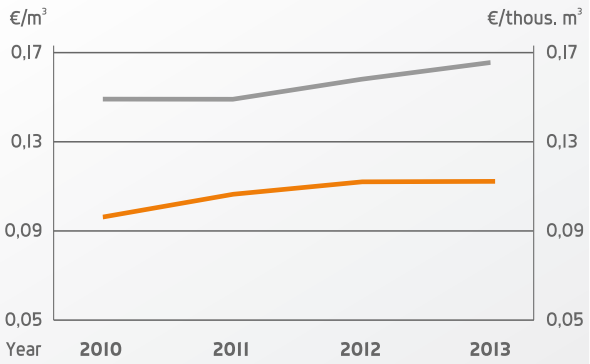
In the first two years of the regulatory period of 2012–2013 the Office determined maximum prices, based on the calculations. In relation to a new Act on Regulation (Article 12, Section 8 Act No. 250/2012 Coll.) there is the change in the approach to performing price regulation, which relates to the method of calculation of fixed price.

In 2013 the maximum price for extraction of surface water from a river flow for regulated company, which is Slovenský vodohospodársky podnik, š.p., Banská Štiavnica (a state-owned Slovak Water Enterprise) has not been changed. The average price for utilisation of hydro power potential of a river flow increase compared to 2012 by the rate of inflation, i.e. by 2.46%, whereas there are different maximum prices charged to individual groups of users of hydro power potential depending on installed capacity of hydro power stations. The maximum price for extraction of water used for energy purposes obtained from a river flow increase annually by 5.0 %.

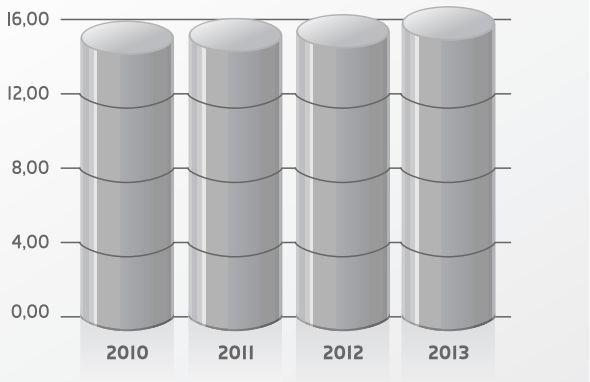
Prices for provision of water services (exc. VAT)

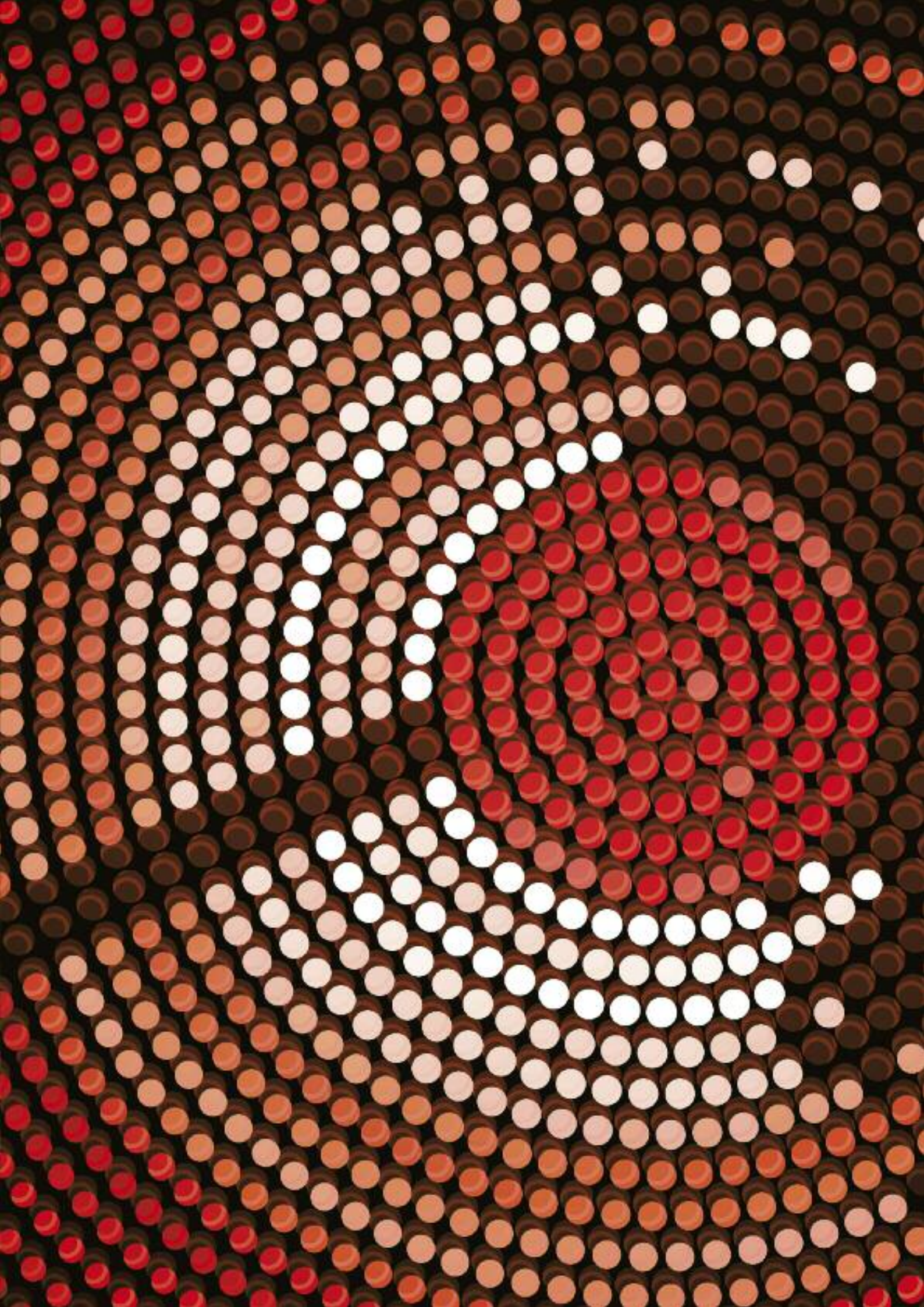
	2010	2011	2012	2013
Price for extraction of surface water per 1m^3	0,0963	1,1059	0,1122	0,1122
Average price for utilisation of hydro power potential per 1MWh	14,9674	15,1021	15,3770	15,7552
Price for extraction of water for energy purposes in thous. m^3	0,1492	0,1492	0,1580	0,1659

The development of price for water extraction (excl. VAT)



The average price for utilisation of hydro power potential in €/MWh (w/o VAT)





V. Licenses for performing business in network industries

As regards technical regulation the Office makes decisions inter alia on the issuance, amendment and cancellation of license for performance of regulated activities. Business with regulated activities in the electricity industry and the gas industry may be done by natural and physical persons only on the basis of license issued under the Act on the Energy Industry.

In 2012 the Office issued 45 new licenses for performing regulated activities, half of which made licenses only for electricity and gas supplies. The Act on the Energy Industry amended the conditions for issuance of licenses for the persons that perform only the activity of electricity supply or gas supply. These persons are not subject to the obligation to determine a representative. In this regard the Office made alterations in licenses for electricity supply or gas supply issued to such persons and exempted a responsible person from them. This significantly increased the number of changes in licenses compared to 2011. Such legal amendment removes potential discrimination of Slovak electricity or gas suppliers against the persons that have permanent residence or the address on the territory of the country that is a contractual party to the Treaty on European Economic Area and a license for electricity or gas supply may be obtained only on the basis of document allowing to supply electricity or gas in accordance with the law of the country with its permanent residence. As part of the changes the Office exempted from license also the restricted territories i.e. the Slovak Republic, with regard to the fact that the supplier of electricity or gas may be based on the license issued by the Office qualified to do business also in other countries to the Treaty on the European Economic Area.

An overview of applications submitted and decisions issued in 2012

	New licenses	Withdrawn licenses	Alterations in licenses	Suspended proceeding	Ceased proceedings
Electricity industry	31	9	203	31	14
Gas industry	13	1	93	9	9
Autom. subst. and crude oil	1		5	1	
Total	**45**	**10**	**301**	**41**	**23**

An overview of valid licenses in the electr. industry pursuant to Art. 6 Sect. 2 Letter a) and b) of the Act No. 251/2012 Coll.

Electricity production	5
Electricity transmission	1
Electricity distribution	4
Electricity production and supply	97
Electricity production, distribution and supply	27
Electricity distribution and supply	128
Electricity supply	155
Organising short-term day ahead electricity market	1
Total	**418**

An overview of valid licenses in the gas industry pursuant to Article 6 Section 2 Letter c) of the Act No. 251/2012 Coll.

Gas production	2
Gas production and gas supply	1
Gas transmission	1
Gas distribution	5
Gas distribution and gas supply	42
Gas production, distribution, storage and supply	2
Gas storage	2
Gas supply	84
Total	**140**

An overview of valid licenses in the energy sector - automotive substances and crude oil

purs. to Article 6 Section 2 Letter d), e), f) and g) of the Act No. 251/2012 Coll.

Operation of pipelines for transportation of automotive substances	1
Operation of equipment for filling pressurised vessels	9
Operation of pipelines for transportation of crude oil	2
Operation of equipment for distribution of liquefied gaseous hydrocarbon	1
Operation of equipment for filling pressurised vessels and operation of equipment for distribution of liquefied gaseous hydrocarbon	1
Total	**14**

The number of valid licenses only for electricity supply and gas supply - total

	2005	2006	2007	2008	2009	2010	2011		2012	Total
							new	*withdrawn		
Electricity supply	39	27	21	24	23	18	16	28	15	155
Gas supply	12	16	10	6	10	17	15	14	12	84
Total	**51**	**43**	**31**	**30**	**33**	**35**	**31**	**42**	**27**	**239**

* Under the Act No. 656/2004 Coll. on the Energy Industry and on Amendment of some Acts in wording of later regulations the holders of Professional Competence Certificate were obliged not later than until May 1, 2011 to demonstrate their professional competence by the certificate issued by the Ministry of Economy of the Slovak Republic. 42 licensees that failed to comply with their obligation were withdrawn the business license in the energy industry by the Office.

Notification on Compliance with Notification Obligation

Doing business in the energy sector is possible also on the basis of the certificate on compliance with notification obligation issued by the Office.

Notification obligation is related to legal and natural persons that conduct the following activities:

a) Generation and supply of electricity by a generation plant with the total installed capacity up to 1 MW, including,
b) Generation and supply of gas from biomass,
c) Generation and supply of gas from biogas,
d) Sale of compressed natural gas to power motor vehicles,
e) Transportation of extracted crude oil from the point of production to the point of processing
f) Transportation of liquefied gaseous hydrocarbon in pressurised vessels,
g) Sale of liquefied gaseous hydrocarbon for driving motor vehicles including the filling of a tank of motor vehicle with liquefied hydrocarbon for driving motor vehicles, except for the filling of pressurised vessels,
h) Transportation of liquefied gaseous hydrocarbon in pressurised vessels.

From September 1 notification obligation also requires to give evidence on ownership or renting relationship of

An overview of issued certificates on the compliance of notification obligation

The activities subject to issued certificates on compliance with notification obligation	**Number of issued certificates**					
	2008	**2009**	**2010**	**2011**	**2012**	**Total**
Production and supply of electricity with the total installed capacity up to 1 MW including:						
1. Small-scale hydro power plants	30	46	62	18	20	176
2. Solar power plants	5	26	234	725	514	1504
3. Wind power plants		1			1	1
4. Facilities using biogas	4	5	12	23	25	69
5. Facilities using biomass	2	5	4	8	1	20
6. Facilities with a capacity up to 1 MW	7	9	9	6	7	38
Production and supply of gas from biomass		1	1			2
The sale of compressed natural gas determined for driving motor vehicles		1		2	2	3
Transportation of liquefied gaseous hydrocarbon in pressurised vessels	23	12	11	4	10	60
Sale of liquefied gaseous hydrocarbon for driving motor vehicles including the filling of a tank of motor vehicle with liquefied hydrocarbon for driving motor vehicles, except for the filling of pressurised vessels	29	11	7	4	7	58
Transportation of liquefied gaseous hydrocarbon in pressurised vessels	12	2	8	4	6	32
Total	**112**	**119**	**348**	**794**	***593**	**1373**

the applicant to energy generation plant. Supplementing such provision helped significantly clarify the relation of the applicant of the energy equipment that intends to be used for business activities.

In 2012 the Office issued 593 certificates on compliance with notification obligation. Of the total number of issued certificates on fulfilment of notification obligation in 2012 514 certificates were issued for electricity generation in and supply from solar equipment with an installed capacity up to 1 MW. A decline of the number of issued certificates, compared to 2011, was brought about by the change of size of support to electricity generated this way. Starting from April 1, 2011 the support in the form of additional payment is related only to the equipment with an installed capacity up to 100 kW that is placed on the roof construction or cladding of one building connected to the ground by fixed foundation recorded in the cadastre of real estates.

* In 2012 there were further 34 certificates on notification obligation issued due to the changes in identification data of the holders of certificates on notification obligation and due to the termination of performance of regulated activity.

Business licenses in the thermal energy sector

It is also possible to do business in the thermal energy industry only on the basis of the business license issued in the area of production of heat, production and distribution of heat or heat distribution. In 2012 the Office issued 27 new licenses in the thermal energy industry. In the course of 2012 there were 149 alterations made in the issued licenses, most of which was caused in the scope of technical measures or the changes in identification data of the licensee.

An overview of applications submitted and decisions issued in 2012

New licenses	27
Revocated licenses	14
Alterations in licenses	149
Suspended proceedings	58
Ceased proceedings	1
Total applications	**249**

An overview of valid licenses in the thermal energy industry as of December 21, 2012

Production and distribution of heat	312
Heat production	22
Heat distribution	23
Total	**357**

Safety and reliability standards, quality of services and supplies

Directives No. 2009/72/EC and 2009/73/EC of 13 July 2009 concerning the common rules for the internal market in electricity and natural gas determined the obligation for the regulatory authority to monitor and observe the rules concerning security and reliability of the system and network, to examine their functioning in the past and to set or approve the standards and requirements concerning the quality of service and supply and, if applicable, to ensure this jointly with the other relevant bodies.

By transposition of the said Directive into the national legislation the standards concerning the quality for the electricity and gas industries were put into practice.

The Office has been monitoring and evaluating the compliance with quality standards for four years, based on the data from evaluation of quality standards of the regulated entities. It can be said that over time the regulated entities pay increasing attention to the observance of the quality standards. Each year the Office carries out surveillance and based on its results it continues with administrative proceeding on imposing penalty for failure to deliver the evaluation of standards in the given deadline. Decrees on price regulation of electricity from 2016 will introduce the coefficient of achieved fulfilment of quality standards. By this coefficient the observance of the quality standards will be reflected in the pricing. Starting from January 1, 2013 the compensation payments will be introduced for the regulated entity to pay automatically to the customer harmed in case the quality standards were broken.

VI. Performance of surveillance in 2012

In compliance with the Act No. 276/2001 Coll., in 2012 the Office carried out the inspections in 75 regulated entities, out of which in 53 regulated companies the Office revealed the failure to comply with the statutory obligations. The inspections were carried out based on the Inspection Plan, on the submissions delivered by natural and legal entities and on ad hoc needs of the Office. The inspected entities that were found to break the law were instructed to take the measures to eliminate and correct deficiencies identified through inspections and were also penalized.

Last year the Office concentrated on checking the conformity with the rules in force concerning regulation in the electricity industry and the gas industry, where examined, first of all, the suppliers for household customers and dealt with enormous number of submissions of customers not satisfied with the services of alternative suppliers of electricity and natural gas.

By its inspection activities, the Office examined the conformity of performed regulatory activities with the business license, the compliance with price regulation, with the rules applicable on the market with electricity and natural gas, the operational order of the distribution system and network´s operator, with the focus on observance of the process of switching the supplier. The inspection was also focused on the compliance with the quality standards, on keeping the separated records on the matters that are the subject of accounting, the correctness of supporting documents and information submitted to the Office and also on the implementation of the measures imposed to eliminate and correct the identified deficiencies, if such measures were imposed by the previous inspection.

In the entities performing regulatory activities in the field of thermal energy industry, the Office examined the conformity of performing such activities with the business license, observing the price regulation after the end of three-year regulatory period and subsequent settlement of the prices for heat supply, observing the quality standards and implementation of the measures imposed to eliminate and correct the deficiencies identified. In the water service industry the Office checked the observance of price regulation, quality standards and implementation of the measures imposed to eliminate and correct the deficiencies identified.

The inspection activities mentioned above were implemented retrospectively, covering the period from 2009 to 2012.

An overview of inspection findings

1. Infringement of Article 11 Para 1 of the Act No. 276/2001 Coll. – failure to perform a regulatory activity based on notification or in the scope of license issued by the Office 8 findings in the area of:

- the electricity industry 8

2. Infringement of Article 13 Para 2 (a) of the Act No. 276/2001 Coll. – failure to perform the regulated activity in compliance with the law and specific rules 44 findings, in the areas of:

- The electricity industry 38
- The gas industry 5
- The thermal energy industry 1

3. Infringement of Article 13 Para 2 (b) of the Act No. 276/2001 Coll. – failure to follow the given method of price regulation and to provide the delivery of goods and services in conformity with approved or given prices 50 findings, in the areas of:

- The electricity industry 28
- The gas industry 2
- The thermal industry 17
- The water service industry 3

4. Infringement of Article 13 Para 2 Letter c) of the Act No. 276/2001Coll. – failure to submit the proposal for setting the price of goods or service, which is regulated in a way and in the scope under the generally binding regulation issued by the Office 10 findings, in the area of:

- The electricity industry 3
- The thermal energy industry 2
- The water service industry 5

5. Infringement of Article 13 Para 2 Letter d) of the Act No. 276/2001 Coll. – failure to keep separate records on the matters that are subject to accounting under special regulation issued by the Office 7 findings in the area of:

- The electricity industry 7

6. Infringement of Article 13 Para 2 Letter g) of the Act No. 276/2001 Coll. – failure to comply with the standards of quality of goods delivered and services provided as defined by the Office and failure to submit the Office the evaluated standards on the quality of goods delivered and service provided under the generally binding legal regulation issued by the Office 21 findings, in the area of:

- The electricity industry 12
- The gas industry 1
- The thermal energy industry 5
- The water service industry 3

7. Infringement of Article 13 Para 2 Letter h) of the Act No. 276/2001 Coll. – failure to take measures imposed by the Office 1 finding in the area of:

- The electricity industry 1

8. Infringement of Article 13 Para 2 Letter i) of the Act No. 276/2001 Coll. – failure to observe the rules for the functioning of the electricity and gas markets 12 findings in the area of:

- The electricity industry 11
- The gas industry 1

9. Infringement of Article 12a Para 6 of the Act No. 276/2001 Coll. – failure to observe the Operational Order by the market participants 2 findings in the area of:

- The electricity industry 2

10. Infringement of Article 13 Para 2 Letter p) of the Act No. 276/2001 Coll. – failure to provide the necessary co-operation when performing the responsibilities by the Office until the deadlines determined by the Office, especially failure to provide the required documents, true background documents and information 4 findings, in the area of:

- The electricity industry 2
- The water service industry 2

11. Infringement of Article 13 Para 2 Letter r) of the Act No. 276/2001 Coll. – failure to fulfil the obligation under special provision that is the Act No. 309/2009 Coll. in wording of latter regulations 1 finding, in the area of electricity sector

In 2012 the Office through its inspection activities identified law infringements in 133 cases when performing regulated activities in the area of the electricity industry, 25 cases in companies performing regulated activity in the thermal energy industry, 13 cases in companies performing regulated activity in the water service industry and 9 cases in companies performing regulated activity in the gas industry.

In 75 regulated companies where the Office carried out inspections were identified 160 infringements of law.

In the area of the thermal energy sector the Office started to perform inspections only in the second half of the year 2012 because the heat suppliers had an obligation to settle the prices for heat supply following the end of the three year regulatory period starting from 2009 to 2011 in March, or April 2012.

Measures to eliminate deficiencies

In order to eliminate and redress any deficiencies identified during the inspection the Office imposed 145 measures, of which in the area of:

- The electricity industry 99 measures,
- The gas industry 8 measures,
- The thermal energy industry 25 measures,
- The water service industry 13 measures.

The Office enforced an obligation on regulated companies to pay back their consumers of electricity, heat and water the difference between the actually paid price and the price that should have been paid under applicable regulations

in total amount of 59,832.67 €
of which to:
- Electricity consumers 70.27 €
- Water consumers 2,723.13 €
- Heat consumers 57,039.27 €
  of which to:
  - Variable component of maximum price 12,720.90 €
  - Fixed component of maximum price 44,318.37 €

Penalties for infringement of the Act imposed on the first instance administrative proceeding

The Division of Inspections and Appeals as a technically relevant administrative body under Article 5 of the Act No. 71/1967 Coll. on Administrative Proceedings takes decisions on the first instance administrative proceeding in the matters related to infringement of the obligations arising out of the Act on Regulation and special regulations.

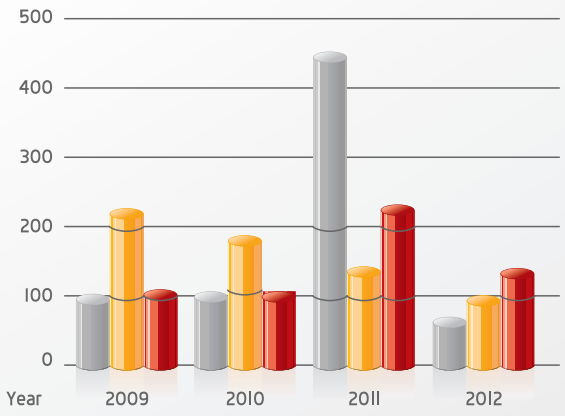
The decisions on imposing penalty at the first instance administrative proceeding

Decisions	Number	Amount
Issued	104	174 850 €
Definite	86	144 750 €

In 2012 the first instance administrative authority made decisions on penalties for failure to comply with the obligations defined in Article 13 Para 2 of the Act No. 276/2001 Coll. either based on the conclusions arising out of inspections performed or based on the findings of the Office concerning failure to fulfil the obligation to submit the Office documents as defined by law for the purpose of approval, or to submit the Office the necessary documents and information until the date required. The penalties imposed under Article16 of the Act No. 276/2001 Coll. on First Instance Administrative Proceeding were initiated against 110 companies whereas 6 proceedings were to continue in the following year. Out of 104 issued decisions on imposing penalty at the first instance administrative proceedings the companies made appeal against 11 decisions on imposing penalties.

An overview on the number of inspections performed, penalties imposed and measures taken in 2009–2012

	2009	2010	2011	2012
Inspections performed	109	111	454	75
Decisions on imposing penalty	229	191	147	104
Measures taken to remove deficiencies	113	120	234	145



Initiatives, complaints

In 2012 the Office paid a special attention to dealing with initiatives and complaints of the natural and legal entities (hereinafter referred to as „submission") that were submitted to the Office in the enormous amount. The number has increased compared to the previous years more than four times. This increase has arisen from the progress in electricity and gas trade liberalisation. Traditional suppliers of electricity or gas started to offer or deliver the contrary commodity and also some new alternative suppliers appeared on the market with electricity and gas. In some cases the new suppliers started to supply electricity and gas with insufficient knowledge on relevant legislation in network industries, which has reflected in breaking the rules when switching the supplier.

Some of them acquired the new customers in an aggressive way without appropriate communication with clients, with the insufficient number of contact points for

customers and with insufficient amount of qualified staff. One supplier even did not possess sufficient working capital and withheld financial means of the customers arisen from overpayments for quite a long period of the year.

Based on these facts, the Office was addressed by customers, especially households, whose supplier had not even made any mistake, but they needed to receive assurance. The Office dealt with the submissions through expert´s opinions and through the execution of inspections with the subsequent drawing of legal consequences against entities that committed infringements.

The Office also dealt with the submissions concerning the invoicing of electricity and gas. These were the doubts about correctness of individual components of the price, problems related to switching the supplier, switching the customer at the existing delivery point and also the problems with calculation of the consumption of electricity and gas if the metering device failed, where the supplier invoiced recalculated consumption by type diagram for the period from the last physical meter´s reading, sometimes even for the period of three years, which was for the cost-effective behaving customer disadvantageous.

In the area of thermal energy industry the Office dealt with the submissions concerning the application of price for heat after the expiry of the three-year regulatory period.

In order to protect the customer the Office gave priority to inspections after receiving submissions, elaborated the expert´s opinion and communicated in person and by phone with respective natural and legal entities.

The consumers became aware of the decrees issued by the Office on the quality standards of goods and services delivered. They addressed the Office mainly with the request to verify the meeting of deadlines for verifying the settlement of payment for the supply of electricity, gas, heat and water.

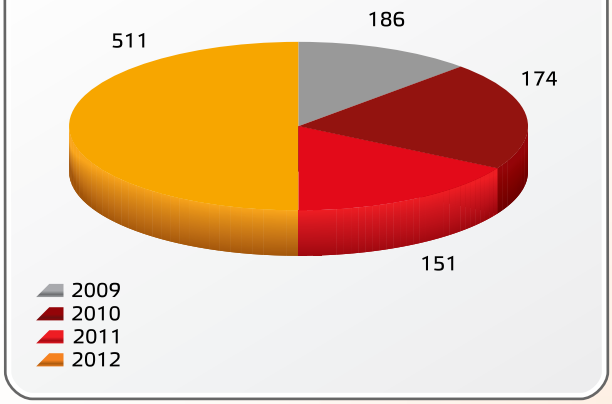
In terms of the content of submissions the customers pointed out at the problems related to infringement of

- the electricity market rules in 130 cases
  of which for: supplier switching 104 submissions
  Operational Order 17 submissions
  invoicing matters 9 submissions,
- The gas market rules in 79 cases
  of which for: supplier switching 50 submissions
  Operational Order 22 submissions
  invoicing matters 7 submissions,
- Regulated price in 47 cases in the electricity industry and 11 cases in the gas industry
- Quality standards in the electricity industry in 20 cases and in the gas industry in 11 cases
- Matters beyond the competence of the Office in the electricity industry in 251 cases and in the gas industry in 71 cases.

There were 511 submissions by natural and legal persons delivered, of which 390 submissions were settled and 83 submissions were partly settled, which means that they will definitely be settled after finishing the inspections, or the administrative proceedings. The settlement of 38 submissions passed to the following year.

With regard to the settlement of submissions 1,202 expert opinions were delivered to natural and legal persons.

The number of expert´s opinions delivered to natural and legal persons in relation to submission settlement procedure



In 2012 the Office aimed its inspection activities on renewable sources of energy that through the tariff for network operation significantly affect the final electricity price.

During the three month inspection period when the Office worked together with forensic experts to check 1,217

renewable energy based generation plants. It revealed that there had been more than 200 infringements of law. Infringements were of administrative character, but some were also of more serious.

In serious cases:

- In 69 cases the Office initiated the administrative proceeding for infringement of act
- the Office referred 56 cases to criminal authorities
- 13 cases were referred to the Tax Office
- 2 cases were referred to the Slovak Commercial Inspection Authority, and
- Approximately 100 cases were referred to the General Prosecutor´s Office of the Slovak Republic.

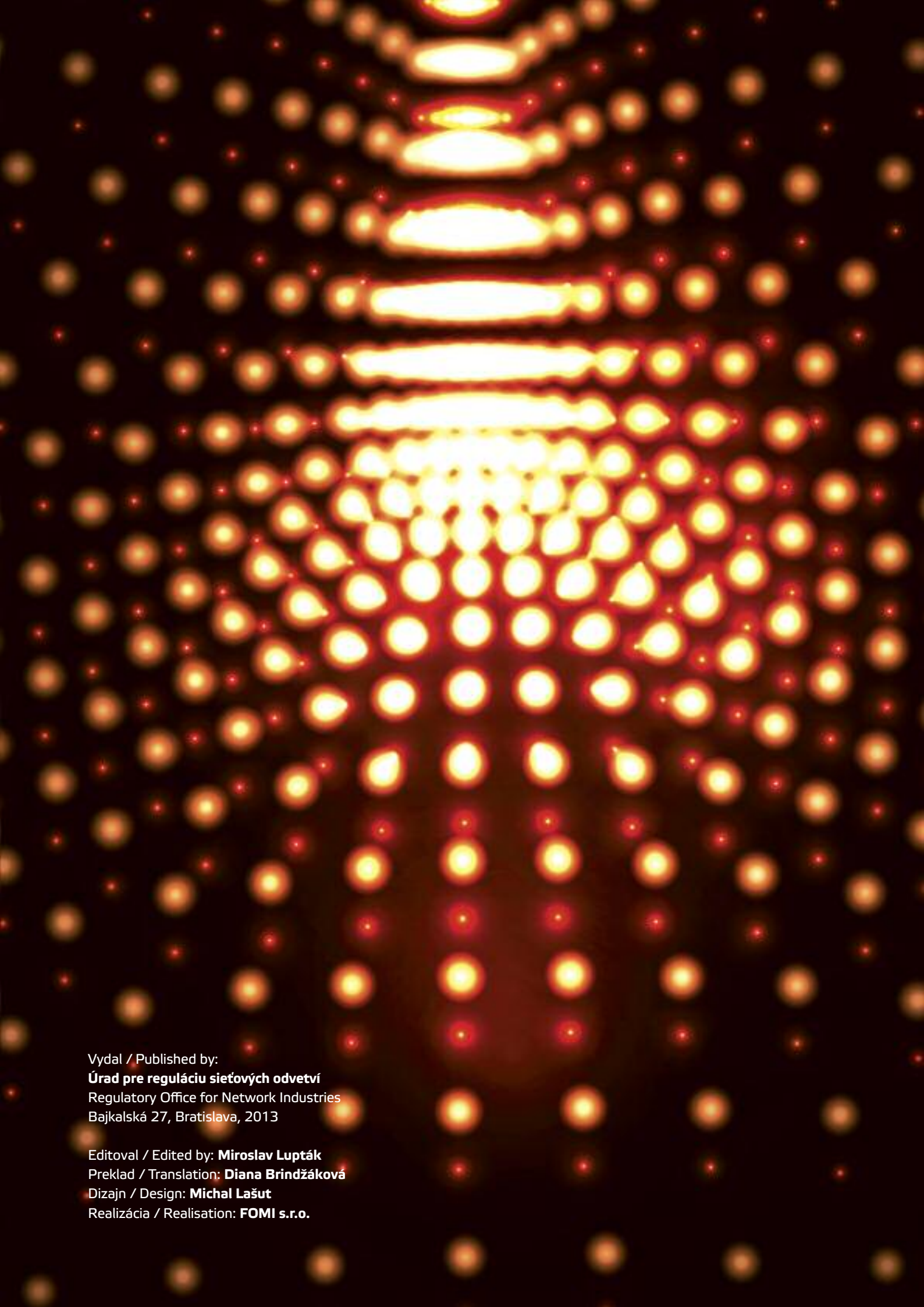
VII. Dispute settlement

In 2012 the Office took decision on one dispute which arose out of Article 37 (11) of the Directive 2009/72/EC between the submitter being ZSE Distribúcia, a.s. that is the distribution system operator and the defendant being SLOVNAFT, a.s. concerning the obligation to pay the price for connection to the distribution system in order to increase the maximum distribution capacity of equipment for electricity generation. Dispute settlement was suspended by the Office with the Decision No. 0016/2012/E-ZK dated December 12, 2012. At the moment there is the appealing proceeding at court.

VIII. The settlement of application forms under the Act No. 211/2000 Coll. on Free Access to Information and on Amendment and Supplement of some Acts in wording of latter regulations in 2012

In 2012 the Office dealt with 29 applications regarding access to the information (hereinafter only "application"), out of which 23 were settled, thus allowing access to the information, in 3 cases the applicant was declined and 3 applications were postponed.

Of the total number of settled applications, 10 of them referred to the information on energy prices and on background documents to price proposals, 4 cases required for the list of electricity generators based on renewable energy sources, in 3 cases the applicants required the information on activities and responsibilities of the Office. The applicants also requested the information on validity and binding character of regulations. The number of applications annually decreased mainly in applications for access to energy prices and in licenses for business activities in energy industries. A decline in the number of applications is attributed to a detailed publication of such information on the official web site of the Office.



Vydal / Published by:
Úrad pre reguláciu sieťových odvetví
Regulatory Office for Network Industries
Bajkalská 27, Bratislava, 2013

Editoval / Edited by: **Miroslav Lupták**
Preklad / Translation: **Diana Brindžáková**
Dizajn / Design: **Michal Lašut**
Realizácia / Realisation: **FOMI s.r.o.**